France	FFr7.50	Lux	LFr55	Sweden	SKr12
Germany	DM2.60	Malaysia	M$4.25	Switz	SFr2.50
Greece	Dr180	Morocco	MDh8.00	Thailand	Bht50
Hong Kong	HK$12	Neth	Fl 3.25	Tunisia	Din0.800
Hungary	Ft107	Nigeria	Naira16	Turkey	L2500
Iceland	IKr160	Norway	NKr12.00	UAE	Dh7.00
India	Rs15	Oman	OR1		

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ITALY

A scoring chance on the diplomatic field

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Bundesbank urges public sector spending curbs to finance union

By David Marsh and Leslie Colitt in Berlin

THE West German Bundesbank, which yesterday brought in the D-Mark as legal tender for 16m East Germans, issued a strong call for curbs in public sector spending to help finance the merger of the two Germanys.

Mr Johann Wilhelm Gaddum, the Bundesbank directorate member responsible for the central bank's new East German operations, said that conditions for investment in East Germany would be aided by "stronger restraint in public sector budgets in the Federal Republic."

Mr Theo Waigel, the Bonn Finance Minister, in East Berlin yesterday for the first day of German economic and monetary union, said the currency changeover would not lead to extra inflation.

"We are following a stability-orientated policy," he said, pointing out that next year's central government spending was due to rise only 3.9 per cent.

But Mr Waigel underlined anxieties about budgetary pressures when he said earlier in the day at the East German Government's press centre: "I appeal to all ministers in East and West: hold down your (spending) demands."

Yesterday's sweeping replacement of the East Mark by the D-Mark and the introduction of a market economy into East Germany were hailed by Mr Lothar de Maizière, the East German Prime Minister, as an "irreversible step" towards full political unity. Mr Helmut Kohl, the West German Chancellor, said yesterday was a "historic date."

Mr Gaddum, speaking in the Bundesbank's provisional East Berlin headquarters in the old pre-1945 Reichsbank, said "no difficulties" had come up in yesterday's conversion.

Withdrawals by East Germans of their new D-Mark bank accounts represented only a small fraction of the DM25bn ($14.9bn) the Bundesbank had transported in for yesterday's currency change.

Although all 16m Germans have now opened D-Mark accounts to replace old East Mark holdings, the Bundesbank believes there will be no rush of consumption in the first few weeks. East Germans have now requested to withdraw as cash only DM4.5bn in the first week of currency union ending this Saturday.

This reflects many East Germans' desire to save, rather than spend, their first D-Marks, as well as the stocks of D-Marks they already acquired through various means.

Underlining optimism that conversion will not unduly inflate the money supply, Bundesbank officials yesterday said that the expected new additions to cash in circulation in East Germany were minimal, compared with notes and coins in circulation in West Germany of DM160bn, which can fluctuate by DM10bn to DM20bn during a year.

Mr de Maizière criticised the press for playing up the "risks," rather than the "opportunities" of currency union.

However, the threat of labour unrest over the new economic conditions was emphasised yesterday, as the IG Metall metalworkers' union in East Germany called for warning strikes in the Berlin-Brandenburg region in support of a 40-hour week and DM400 more per month in wages.

● West German Chancellor Helmut Kohl yesterday called for all Germans to overcome hardships and work together to make economic union a success that will lead to full unification of the divided nation Reuter adds from Bonn.

"This is a decisive step on the way to unification of our fatherland," he said in a television address on an emotional day when the two Germanys joined economic forces, making the powerful West German mark legal tender in the East.

"Germans in the Democratic Republic (East) and the Federal Republic (West) are now once again insolubly linked ... through a common currency and a common order of social market economy.

Although he set no dead'ine, his Chancellery Minister Rudolf Seiters made it clear the conservative Bonn government would press for full unification of the two Germanys as swiftly as possible.

Background and analysis, Page 6 and page 2

East Germans attempting to withdraw their first D-Marks

Changes in E Germany

● D-Mark replaced East German Mark as the official currency, with the Bundesbank in charge.
● All border controls for Germans lifted between East and West Germany.
● All price controls ended, apart from rents and public sector charges (energy, transport, etc).
● Main elements of West German social security system brought in.
● West German VAT and other consumer taxes levied. Partial introduction of West German income tax. Corporation tax to be introduced in January.
● West German wage bargaining system and labour and banking laws brought in, property rights introduced
● Bonn budgetary procedures implemented

Attempt to break farm deadlock between US and Europe

By William Dullforce in Geneva

A CRUCIAL attempt will be launched today to break the deadlock over agriculture between the European Community and the US. The impasse is threatening to bring nearly four years of trade-liberalising talks to nothing.

Mr Art de Zeeuw, chairman of the group negotiating on agriculture in Gatt's Uruguay Round, will table a programme for the reform of world farm trade that from 1991-92 would start cutting supports for farmers, which cost the western countries $251bn in 1989.

His draft text is probably the most important document submitted in the Uruguay Round since trade ministers decided at Punta del Este in 1986 to negotiate the liberalisation of the world trading system over 15 wide-ranging areas.

President George Bush and other US officials have been telling the world that unless there is an agreement on fundamental reform in agriculture at the ministers' concluding meeting in Brussels in December, the US will walk away from the round.

The de Zeeuw text proposes compromises between the defensive EC posture on farm reform and the aggressive US approach in three key, interrelated areas: export subsidies, border protection against farm imports and trade-distorting internal supports for farmers.

Essentially, Mr de Zeeuw's proposed programme favours the US approach on export subsidies but veers towards the EC on the mechanism for handling cuts in internal supports.

The US has demanded the elimination of export subsidies within five years, while the EC has sought to retain its subventions. Under Mr de Zeeuw's proposal, assistance for exports would be reduced more than other forms of protection.

To curb border protection, Mr de Zeeuw advocates that all non-tariff barriers, such as import quotas, voluntary export restraints and the EC's variable levies, should be converted into tariffs, as originally proposed by the US, and then progressively reduced.

If his text is accepted as a basis for negotiation, Mr de Zeeuw proposes that governments submit detailed lists of supports in the three key areas by October 1. This, he suggests, would make it possible to agree on the farm reform programme by December.

Details, Page 2

East Germans develop a taste for D-Marks

IN Dresden's Altmarkt, just two shaky steps from a beer tent set up by ebullient Bavarians, a used 5-series BMW could be, and was, bought, writes Leslie Colitt, David Marsh and Katherine Campbell.

It was just one of the thousands of acts on the streets of East Germany as crowds thronged to exercise their right to participate in what they hope will the country's new economic future.

Carefully rekindling its links with the town where the bank was founded in 1872, Dresdner Bank was doling out money to hundreds of East Germans hungry for D-Marks.

Throughout the country bank staff were doing the hardest day of Sunday bank work in living memory.

A large proportion of Dresdners were withdrawing their full DM2,000 ($1,190) entitlement to spend it today on the first day of the school holidays.

But there were mixed feelings as the power of the D-Mark swept into the once Communist land.

With D-Marks in their pockets as legal tender for the first time in the east, thousands of East Germans pressed their noses to freshly decked shop windows, preparing to convert the currency of capitalism into western wares.

But resentment was mixed with hope. Most East Berliners were cautious about spending their new money, although there were stories of long planned splurges.

One of the first Berliners to withdraw D-Marks, shortly after midnight at the Deutsche Bank's Alexanderplatz branch, said he was putting his DM1,000 towards his wife's funeral.

One problem was that not much was on sale in Berlin – and still less of it came from East Germany as West Germans moved in.

A sausage stall close to Unter den Linden was from Hanover, and had run out of sausages. Next to it stood a garish fairground wagon offering a show of live sharks – from Stuttgart.

But a day of consumption was in prospect as strollers along East Berlin's main shopping street, Schönhauser Allee, gazed in astonishment as attractive arrays of clothes, toiletries, kitchen appliances and processed foods appeared before their eyes.

Retail assistants were working overtime to fill stores with goods, overwhelmingly imported from West Germany.

The Alexanderplatz opening, attracting more than 10,000 queuers amid scenes of partially drunken revelry, was marred by a crush in which bank windows were shattered and 13 people injured. By four o'clock yesterday afternoon, this branch alone paid out DM12m.

The staff at Dresdner Bank's prefabricated home in its original home town were just as busy.

The six tellers had been shifting their lines fast, cashing a cheque every six seconds. By late evening they had paid out DM6m to 4,000 customers. Providing a non-stop cheque-cashing service from 8am to 9pm meant calling all hands on deck.

The former boss of Dresdner's New York office was in the back offices of Dresdner's pre-fab cheerfully balancing the accounts by hand. Meanwhile at the Bavarian beer tent late on Sunday morning, the hosts had most of their guests up on the tables and a street carnival was well under way.

"We are no longer the beggars," said Mr Hardy Meyer, a Berlin floor-polisher who had just picked up DM2,300 with his wife and was bound for Cologne on holiday.

An East Berlin underground railway worker was more philosophical. "The strange thing is not the new money, but how quickly we are getting a new identity," he reflected.

That identity is not trouble-free. An old man looked out from his balcony at the crumbled remains of the Berlin Wall and complained about the squatters from the West who had moved in next door.

Continued on Page 14

Ratners poised to become the second-biggest jeweller in US

By Andrew Hill in London

RATNERS, the British jewellery retail group, is poised to issue further shares to fund a $400m agreed bid for Kays Jewelers, a chain of 500 stores in the US.

Details should be announced today following negotations over the weekend. If the bid succeeds, Ratners will become the second-largest jeweller in the US, with 1,000 stores.

Mr Gerald Ratner, the UK group's chairman and the most successful survivor of the entrepreneurial retailing boom in the 1980s, wants to build a chain of 1,500 stores in the US. Zales, the market leader, owns about 1,700 outlets.

Ratners is expected to pay about $200m for the Kays chain, and will also take on some $200m of debt. The offer is unlikely to be funded by a straight issue of ordinary shares to Ratners' UK shareholders, but could involve a convertible or preference share issue.

Mr Ratner was unavailable to comment on his US plans yesterday, but he is said to be confident that institutions will support the deal and fund-raising package, despite several cash calls made by Ratners in the last two years.

Last September, for example, Ratners issued $150m of US variable-term preference shares and up to £50m ($86m) of UK redeemable preference shares to help reduce gearing. That fund-raising exercise came less than a year after an £81m rights issue, two-thirds of which was left in the hands of the underwriters.

Kays is quoted in the US and about 40 per cent of its equity is owned by board directors. Its shares closed at $10⅞ in New York on Friday, compared with a peak of $30.

Rumours about a possible bid for Kays started to circulate earlier this year after Mr Ratner made it clear that the UK group would not bid for Dixons, the electrical retailer.

Ratners moved into the US three years ago, when it bought Sterling, then the fourth-largest US chain, for $203m, and last year it took over Weisfeld's for $55m. The Kays chain – mainly on the east and west coasts – is said to fit well into the geographical spread of the existing Ratners stores in the US.

It still rankles with Mr Ratner that he failed last year to buy Gordon's – another 500-store chain in the US – after his City advisers expressed caution about the stores' high gearing ratio. Ratners hesitated and withdrew its offer temporarily, only to see its principal US rival, Zales, succeed with a lower bid.

The memory of that rare failure may explain why Mr Ratner is preparing a bid for the whole Kays chain, contrary to earlier rumours which had suggested his group would buy only 50 or so stores from the highly geared US group. As recently as 10 days ago, Mr Ratner's advisers were said to be cautioning him against another large takeover bid.

World News

Bush ready to withdraw all nuclear artillery

President George Bush will propose the withdrawal of all US nuclear artillery shells from Europe at this week's summit meeting of Nato leaders.

The proposal, affecting nearly 1,400 shells, is intended as a further reassurance to the Soviet Union that a unified Germany within Nato will not threaten Moscow's security interests. Page 3

Mandela moves on

Nelson Mandela, the ANC deputy leader, arrived in Dublin, Ireland, after a triumphant 13-day tour of North America which he said had "inspired us beyond imagination."

Test for Gorbachev

Mikhail Gorbachev will today challenge the ruling Soviet Communist Party to overhaul its entire party policy and structure in the face of a drastic slump in its national prestige. Page 14

Aeroflot hijack

A draft dodger armed with a fake grenade hijacked a Soviet aircraft to Sweden. It was the sixth act of piracy against Aeroflot, the Soviet airline, in three weeks. He later surrendered and the aircraft returned to the Soviet Union.

Poll boycotted

Ethnic Albanians in the southern Yugoslav province of Kosovo boycotted a referendum to determine the future autonomy of the province. Page 3

Silence nears end

China and Indonesia began what was expected to be final talks before re-establishing diplomatic relations broken off 23 years ago over China's alleged role in an Indonesian coup attempt.

Housing boosted

The Israeli Cabinet adopted emergency powers for a house building programme to help absorb the 50,000 Soviet Jewish immigrants who have arrived since the beginning of this year. Page 5

ANC strike call

The African National Congress called a national strike to put pressure on conservative tribal leader Mangosuthu Buthelezi and the white minority government. Page 5

Aid worker nabbed

Communist rebels fighting for the removal of US military bases kidnapped an American Peace Corps worker from his home in central Philippines.

France curbs racism

A controversial law toughening penalties against racial discrimination passed its final legislative hurdle in the French parliament. Page 4

Coup leader freed

General Jaime Milans del Bosch, the most senior Spanish officer imprisoned after the failed coup attempt on February 23 1981 and one of the country's last fascist heroes, was freed after nine years in jail. Picture, Page 3

Rain toll rises

Police pulled two more bodies from the rubble of a Bombay building which collapsed in heavy rain last week, raising the death toll to 39.

China tallies up

China, the world's most populous country, began to count its estimated 1.1bn people in the first nationwide census in eight years.

A blooming success

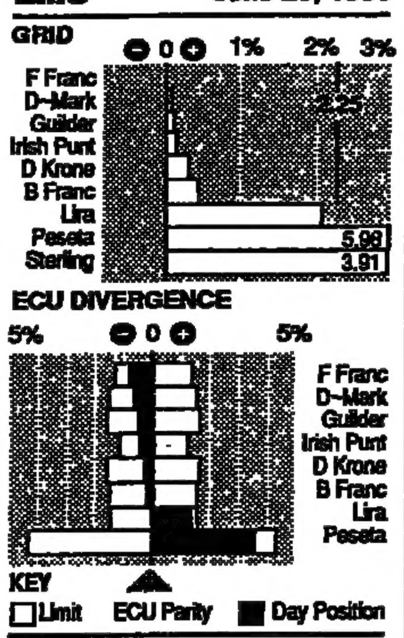
The National Garden Festival at Gateshead in north-east England was hit by a freak storm - just seconds after a visiting cowboy and Indian group had finished doing a rain dance.

Business Summary

Pathe sued by Time over MGM takeover

TIME WARNER, the US media and entertainment group, has launched a lawsuit against Pathe Communications for breach of contract, in a spectacular about-face that could sink Pathe's proposed $1.3bn takeover of MGM/UA, the Hollywood studio. Page 14

EUROPEAN Monetary System: High yielding currencies remained the firmest within the EMS last week. The Spanish peseta and Italian lire stayed at the top of the grid, reflecting their strength particularly against the French franc. The franc continued weak with no immediate rise in French interest rates expected.



The chart shows the constraints on EMS exchange rates. The upper grid, based on the system's weakest currency, defines the cross-rates from which only the peseta may move by more than 2¼ per cent. The lower chart gives currencies' divergence from the central rate against the European Currency Unit (Ecu), itself derived from a basket of currencies.

ARGENTINA'S President Carlos Menem has signed a decree confirming the sale of 60 per cent of ENTel, the country's state-run telecommunications network, to foreign consortiums. Page 18

NORWAY, western Europe's second-biggest crude oil and third-biggest gas producer, wound down output from 23 oil and gas production platforms as a strike by workers began to bite. Page 4

LONDON: a proposed change in the trading rules of the International Stock Exchange, designed to give private shareholders a better deal on the stock market, has been dropped after pressure from a group of market makers. Page 9

WESTERN Europe's railways are considering a controversial plan to build a pan-European telecommunications network alongside their tracks to compete with telephone companies. Page 14

MAI, British services company, is to raise $135.8m by placing part of its stake in Avenir Havas Media, the posters and free newspapers group which it controls jointly with French media group Havas. Page 19

FRENCH Socialist MPs have formally tabled plans to nationalise Framatome, the nuclear plant builder which is at the centre of a struggle for management power between the public and private sectors. Page 18

SUMITOMO Bank is to be the first Japanese bank to raise funds through subordinated loans following a recent decision by the Ministry of Finance to ease restrictions. Page 18

INSEE, French national economics institute, has given an enthusiastic assessment of the strength of the French economy last year. Page 4

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THE MONDAY INTERVIEW

Brazil's Environment Minister José Lutzenberger has spent most of the past 20 years fighting government and big business. But the 64-year-old ecologist does not see himself as poacher turned gamekeeper. Page 32

FT SURVEYS THIS WEEK

1992: Redrawing the map of Europe

As rigid post-war divisions end, Europe is re-defining its collective political, economic and cultural identity. *Separate section.*

■ TODAY:
Separate sections: **International Capital Markets:** a franchise under stress as the excesses of the 1980s pervade the new decade. **1992: Redrawing the map of Europe:** *see panel.*

■ TUESDAY:
Sweden: the next 16 months leading up to the general election will be critical as Sweden faces up to the changing shape of Europe.

■ FRIDAY:
Yugoslavia: on a difficult road towards a market economy and democracy.

INTERNATIONAL NEWS

Rohwedder optimistic on West's investment

Rohwedder: former sceptic

WEST GERMAN business looks set to provide less than half the new investment needed in East Germany, rather than the three-quarters the Berlin government had assumed, Mr Walter Romberg, the East German Finance Minister, said at the weekend, David Goodhart writes from Bonn.

However, Mr Detlev Rohwedder, chairman of the West German Hoesch group, who has just taken over as head of the East German Treuhand (trust) charged with privatising the country's 8,000 companies, says he now takes a more optimistic view of West German private sector engagement.

In April he belonged to those expressing scepticism about West German readiness to invest, but now he says: "At last week's meeting of industrialists in Bonn I was very pleased to see that the commitment to invest and not just use East Germany as a market does now seem to there; most big companies are far advanced in choosing their partners."

The trust, which actually owns almost all East German companies, now has the immediate task of deciding which should be allowed to benefit from a trust-guaranteed short-term liquidity loan (at least DM10bn for the first three months), and which must close. Thanks to this bridging loan, Mr Romberg expects the real crisis in East German industry to begin only later this year or even after the elections expected in December.

Bonn, meanwhile, expects swift privatisation. Mr Helmut Haussmann, Bonn Economics Minister, said in an interview yesterday: "We are not talking about a medium-term restructuring of East German companies, they must be privatised at once even if that means that they bring in less money."

Mr Rohwedder seems to take a slightly different view. He told the Financial Times: "I would not advise rushing in. We need sufficient time to assess individual situations and act accordingly. Privatisation is not the only task."

The latter view is likely to find support among the 80 East Germans who currently run the trust and are fearful of their country being "asset-stripped". However many of them are likely to be replaced over the next few weeks as Mr Rohwedder selects, with the help of the East German cabinet, his 16 fellow trust supervisory board members plus an executive chairman with a board of four.

Mr Rohwedder, who will be committing two to three days a week to his new job, also wants to sub-divide the trust along either geographical lines, probably corresponding to the re-forming East German Länder, or along sectoral lines, or a mixture of both.

Economic and monetary union. Page 6

Pöhl to tell Thatcher of doubts

By Anthony Robinson

MR Karl Otto Pöhl, president of the West German Bundesbank, will today meet Mrs Margaret Thatcher, the British Prime Minister, to explain his scepticism about British proposals for an evolutionary "hard-Ecu" path to European Monetary Union.

The blunt-spoken Mr Pöhl angered British officials last month by his initial response to proposals by Mr John Major, the UK Chancellor, for a new "hard-Ecu" parallel currency linked to a proposed European Monetary Fund as an alternative to the Delors plan proposals for a single European currency disciplined by a single European Central Bank.

In his criticism of the hard-Ecu proposals Herr Pöhl concentrated on the disadvantages of attempting to create a parallel currency in addition to the existing 12 EC currencies and ignored those aspects of the Major plan designed to meet criticism of the possible inflationary consequences, British officials believe.

Echoes of Mr Pöhl's already stated doubts on the UK's current readiness for entry into the exchange rate mechanism (ERM), in view of its present high inflation rate and current account deficit, and his views on a two-speed progress towards monetary union are expected during his speech at the Institute of Economic Affairs tonight.

But the lessons of German monetary union, and the need to retain tight monetary discipline over the *de facto* united economy will be ostensibly the main theme.

Tomorrow, Mr Pöhl will lunch with the Chancellor after appearing before the House of Lords subcommittee on European Economic Monetary and Political Union.

There, he will be questioned by a distinguished group of peers which over the last fortnight has been well briefed on UK plans by Mr Robin Leigh-Pemberton, governor of the bank of England and Sir Michael Butler, one of the authors of the hard-Ecu plan.

Walesa shows his hold on Solidarity

By Chris Bobinski in Warsaw

MR LECH WALESA, the leader of Poland's Solidarity trade union, again demonstrated at the weekend his hold over the movement's political wing, the Civic Committees, despite opposition to his bid to become the country's president.

Yesterday Prime Minister Mr Tadeusz Mazowiecki, who two weeks before had appealed to the civic committees to establish a formal organisation designed to support his government, declined to press his cause at a meeting in Warsaw called for this purpose.

Mr Mazowiecki's initiative, prompted by earlier resignations from Mr Walesa's prestigious advisory committee, is seen as an attempt to build a political party on the basis of the committees to counter the growing influence of the Solidarity leader.

On Saturday however representatives of the committees, which are Poland's best organised electoral machine, voted overwhelmingly at a meeting called by Mr Lech Walesa against the principle of a formal federation.

Yesterday Mr Mazowiecki confirmed there were differences between himself and Mr Walesa and said he was ready to talk to the Solidarity leader "as a partner" about "what we could do to ensure that unavoidable arguments should not destroy Solidarity."

Mr Mazowiecki, who last August became the first non-communist Prime Minister in eastern Europe, at Mr Walesa's initiative warned the delegates that Poland faced the choice of either "following the difficult path of reform or committing the state to lose control", implying that support for Mr Walesa could lead to the imposition of communist policies.

The warning came as the government yesterday doubled the price of domestic gas and heating, increased electricity charges by 80 per cent and lifted price controls on coal as well as low-fat milk and cheese.

The rises come in the wake of a drop in real incomes of over 35 per cent from the beginning of the year, and were preceded by protest messages from Solidarity trade union organisations.

At the weekend Sir William Reilly, the head of the International Finance Corporation, a World Bank affiliate, in Warsaw for a meeting of bankers aimed at examining possible technical assistance to their Polish colleagues, expressed "admiration" for the Polish government's austerity policies.

He welcomed the US administration's decision last week to forgive an as yet undisclosed part of Poland's £2.6bn debt to the US. He said: "I think private banks would welcome further action by government like this."

The civic committees are due to meet again on July 21 to establish a consultative national conference. At the weekend they showed they have every intention of sticking together with Solidarity under Mr Walesa's aegis.

Farm talks chief seeks way out of maze

William Dullforce reports on the draft agreement on reforming world farm trade

TRADE negotiators hope that the draft text of the agreement on how to reform world farm trade, to be published in Geneva today, will act as a catalyst to unblock the stalled talks.

Mr Art de Zeeuw, the Dutchman who has chaired the farm talks in Gatt's Uruguay Round for the past 3½ years, is walking a tightrope with his carefully balanced paper.

He offers no definitive judgments on several bitterly contested issues but sets out a credible mechanism for achieving the "substantial and progressive reductions" in farm supports established as an objective by world trade ministers.

The paper's biggest challenge is to the European Community because Mr de Zeeuw is least compromising about cutting the subsidies to farm exports – the item on which Brussels has so far refused to commit the EC.

On the other hand, the US and the 14-nation Cairns Group are asked to swallow a programme for reducing internal supports which provides for a considerable number of exceptions and which adopts as an instrument the aggregate measure of support (AMS) advocated by the EC.

A way is left for compromise over Japan's refusal to open its market to rice exports and provision is made within the general approach for special treatment for some Third World food exports and for problems the poorer net food-importing countries might encounter, if prices rise as a result of a deal on agriculture.

Mr de Zeeuw assumes that agreement is close on how to prevent national health and sanitary regulations from being exploited to protect domestic producers. He concentrates on ways of reducing internal farm supports, protection at the border and export subsidies.

All internal supports, with the exception of some which meet certain accepted criteria, would be reduced from 1991-92 over an agreed number of years and at a rate to be negotiated, using an AMS.

This commitment would cover price supports, including any measure which helps to keep producer prices higher than those prevailing in international trade for the same or comparable products; direct payments to farmers, including US deficiency payments; and marketing-cost-reducing measures available only for farm products, including credits and other financial inputs.

The AMS would be the tool for determining the reductions. It would show the total monetary value of supports for each commodity, using 1988 as the base year and a fixed reference price based on 1986-88 data.

Policies to be exempted include a fairly broad range of marketing and promotion programmes, environmental projects, regional development, land retirement and income safety-net schemes. These would have to conform to strict criteria, including:

- Aid must come from taxpayer-funded government programmes. not from consumers' pockets.
- It should not be linked to levels of production.
- It should not be restricted to any specific farm product or sector.
- It should not provide price support for producers.
- Income safety-net schemes should not maintain incomes at more than a given percentage of the most recent three-year average.

To reduce protection at the border, countries would convert all non-tariff barriers, such as the EC's variable levies and the US quotas on sugar, dairy and cotton imports, into tariff equivalents.

Quotas at low or zero tariff rates would be introduced to keep current imports at their existing level or to establish minimum levels of access.

Mr de Zeeuw does not exclude the possibility of negotiating "specific solutions" where special situations may exist for some products – an opening for Japan to cut a deal on rice imports.

In addition, safeguard provisions would allow governments to increase tariffs to meet import surges or to dampen the effect of excessive movements in prices on world markets on the incomes of domestic producers.

Export subsidies would be reduced "effectively more than other forms of support and protection".

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INTERNATIONAL NEWS

US to propose withdrawal of nuclear artillery

By Peter Riddell, US Editor, in Washington

THE US will propose the withdrawal of all US nuclear artillery shells from Europe at the summit meeting of Nato leaders in London on Thursday and Friday.

The proposal, affecting nearly 1,400 155mm and 203mm shells with a range of nine to 18 miles, is part of a series of US ideas which have been circulated around Nato capitals.

The withdrawal of nuclear artillery, strongly supported by the Germans, Dutch, Belgians and Italians, is intended as a further reassurance to the Soviet Union that a unified Germany within Nato will not threaten Moscow's security interests. Implementation may be made conditional on completing the Soviet withdrawal of its forces from eastern Europe.

President George Bush has said a main aim of the Nato summit is to shift the focus of the alliance away from a purely military to a more political character. There will be a non-aggression declaration by Nato to individual members of the Warsaw Pact.

Nato leaders may promise that a second round of talks on reducing conventional forces in Europe (CFE2) will include limits on the size of a single army in central Europe, either a specific number or a percentage of all forces in the region. This in effect will limit the size of a unified German army without naming Germany because of a western desire not to single out the new state or restrict its sovereignty.

The US has reservations about the Bonn Government's desire to include specific restrictions on force levels in a CFE1 treaty, though they would be implemented later. The US fears that discussion of such precise limits would prolong the CFE1 talks and make it difficult to sign a treaty by this November. The US may agree to some indication about broad troop levels in central Europe being made this year to meet the concerns of Bonn and Moscow.

The proposal on withdrawal of nuclear artillery is intended to regain the initiative for the US in the debate over the stationing of nuclear forces in Europe. The shells, mainly based in West Germany, are regarded as redundant.

White House 'will oppose rise in income tax rates'

By Peter Riddell

THE Bush Administration will oppose any increase in US income tax rates as part of a budget deficit reduction deal with Congress, Senator Robert Dole, the Republican Minority leader, said yesterday.

His comments came as the Republicans remained in turmoil over President George Bush's decision last Tuesday to drop his "no new taxes" 1988 campaign pledge.

The Administration and the congressional leadership are in detailed talks about how to cut the deficit in fiscal 1991 by $50bn to $60bn, including not only higher tax revenues but also cuts in defence and domestic spending and reform of the budget process.

Senator Dole, who has always been more sympathetic to tax increases than many conservative Republicans, said Mr Bush would not agree to any package increasing personal income tax rates.

Instead, Mr Dole suggested that options might include an oil import fee, an increase in petrol tax and higher "sin" (cigarette and alcohol) taxes. He acknowledged that any package including higher taxes would be "tough to pass".

Senator George Mitchell, the Democratic Majority leader, stressed yesterday that any budget package must be approved by a majority of both parties in Congress. This is to ensure bipartisan support.

Albanians boycott Kosovo referendum

By Laura Silber in Pristina, Kosovo

ETHNIC Albanians in the southern Yugoslav province of Kosovo yesterday boycotted a referendum to determine the future autonomy of the province.

The referendum, called by the Serbian authorities, will decide whether a new constitution should be adopted.

If the majority votes for such a constitution, the province of Kosovo will lose all its autonomy and will, in all but name, be integrated in the republic of Serbia.

Moreover, the new constitution, which will take months to draw up, will actually postpone free elections in Serbia, at a time when the rest of Yugoslavia is edging towards multi-party systems in the individual republics.

Mr Slobodan Milosevic, president of Serbia, was last week forced to call the referendum after Serbian opposition groups publicly challenged him by demanding elections by the end of the year.

The communist authorities in Serbia are clearly worried about the outcome to the elections, which is why they are stalling, under the pretext of needing a new constitution because the current one does not allow for multi-party elections. Liberals believe this is an attempt by the Serbs to deny the ethnic Albanians any real power in Kosovo.

The southern province has been plagued by ethnic conflict between the Albanian majority and Kosovo's Serbs and Montenegrins, who comprise about 10 per cent of the province's population. At least 50 Albanians have been killed in the past year.

Mr Ibrahim Rugova, president of the Democratic League of Kosovo, which claims 500,000 members, said: "The referendum is unconstitutional and undemocratic. Where in the world is a referendum called in six days?"

Albanians responded to an opposition call to boycott the referendum. The opposition, united in a democratic forum yesterday, called for Kosovo to be given a status equal to Yugoslavia's six republics.

Spanish plot leader leaves prison unrepentant

By Peter Bruce in Madrid

GENERAL Jaime Milans del Bosch, the most senior Spanish officer imprisoned after the failed coup attempt on February 23 1981 and one of the country's last fascist heroes, was freed early yesterday morning – left – after nine years and 127 days in jail.

The release of the unrepentant 75-year-old plotter, who as Captain General of Valencia province brought tanks on to the streets in support of the coup, leaves only Colonel Antonio Tejero, who led the attack on the Cortes in Madrid that day, still in prison.

The general had refused to leave prison until all the other plotters were released, claiming he was ultimately responsible. A judge forced him out of his prison near Madrid, however, in a final defeat.

Gen Milans del Bosch's release, made possible because he had served more than a third of his 26-year sentence, means Col Tejero, who was given the same sentence, may also be freed soon. In all, 16 people were jailed after the coup attempt, which failed after King Juan Carlos ordered the army back to its barracks.

The coup is now just a distant memory for most Spaniards. After General Franco's death in 1975, the country's democratic leaders cleverly decided simply to ignore the country's fascist past.

Statues of the late dictator still stand in many Spanish cities and vendors still sell Francoist memorabilia openly.

Although Gen Milans del Bosch still insisted in 1985 that "under the same circumstances I would do the same" and that "Spain's situation was and remains even worse than in 1936" (when Franco's rebellion began the civil war), he is unlikely now to find much support for those views even among the military.

Comecon looks for new name and new aim

Leyla Boulton on the Soviet-led bloc's preparations for trading on a market basis

A GROUP of prominent officials attending a Council for Mutual Economic Assistance (Comecon), meeting in Moscow last week, failed to agree on a new name to the Soviet-led state trading bloc which is preparing for its own dissolution.

But they did produce an outline agreement on a new charter for a revamped association of the seven Warsaw Pact allies, plus Cuba, Vietnam, and Mongolia.

The organisation has so far come up with three equally uninspiring name titles: the Council for Economic Co-operation, Organisation for Economic Co-operation, and Council for Economic Interaction. But they agreed from legal (and practical) necessity "to liquidate old documents".

The charter, aiming to move relations between the ten countries "on to a market basis, and promote their integration into the world economy", has yet to be finalised at a meeting of prime ministers in the autumn.

Choosing a name and drawing up documents should be easy enough. But the real challenge will be to switch Comecon from brotherly socialism, or four decades of bartering under co-ordinated five-year plans, to market relations between individual enterprises.

"We are pupils now, we are just learning," Mr Sergei Ugarov, Comecon's economic counsellor said in an interview. "The transition from the kind of economy we had before to a market economy is an unusual experience not only for our countries but for the world over."

From next January 1, Comecon countries will begin to trade at world prices in convertible currencies. Moscow, which exports oil and gas to eastern Europe in return for mainly finished goods, says it is ready to trade this way with all its partners immediately.

But eastern European industry is not yet up to competing on world markets to earn enough hard currency to pay for energy at world prices. And Comecon's trio of "less-developed nations" – Mongolia, Vietnam, and Cuba – are still heavily dependent on subsidised prices for their exports, mainly of raw materials.

Hence the plan for an unspecified transition period of varying length for different countries to achieve the goals of the new charter. This means that old forms of accounting, such as the transferable rouble, a nominal unit of account, will continue to be deployed for some transactions.

"It is going to be hard for all of us. One way of obtaining convertible currency is by getting a bank credit but the possibilities of our banks are limited of course," says Mr Ugarov.

"The real problem is to have the ability to produce goods comparable in quality to goods produced by western enterprises. Companies should learn how to do this during the transition period," he said.

When Mr Vaclav Klaus, Czechoslovakia's Finance Minister, was asked when the koruna would become convertible, he is reported to have replied: "Two days after we have convertible goods."

For all their hurry to cuddle up to the West, those members with relatively advanced economies, such as Poland, Czechoslovakia and Hungary, see continued participation in Comecon as a necessary evil in the medium-term.

"We see it as temporary organisation," said Mr Hugo Kysilka, a senior Czechoslovak representative to Comecon. "But it would be stupid simply to walk out now and break off trade relations before we have genuine European integration."

Whether the transition will take three, five, or six years, nobody can say," he added in an interview in the corridors of Comecon's Moscow headquarters.

Mr Ugarov said the transition period would act as an incentive not only for improved quality but also for a more efficient use of resources. "The idea of a transition period is to create a buffer, to spread the shock through time so that it is no longer a shock but therapy."

The new role of the Council, which used to co-ordinate its member states' five-year plans, is seen as doing no more than promoting favourable conditions for enterprises to deal directly with each other, mainly by providing data and forecasts. Cuba, Vietnam, and Mongolia, the weakest and most isolated Comecon members, are likely to suffer most from the changes.

This could mean that the Soviet Union will be left on its own to subsidise the three member states included in Comecon for purely political reasons, if anybody is going to subsidise them at all.

Asked whether the three countries would in fact drown in the process, Mr Ugarov replied: "We are creating conditions where they, Cuba, Mongolia and Vietnam, will need a more realistic approach to relations with other Comecon countries."

The 46th session of Comecon leaders in October or November will also decide on the fate of the organisation's secretariat, a 2,000-strong bureaucracy which occupies a skyscraper on Moscow's Kalinin Prospect. The organisation's facilities even include a hotel to house visiting dignitaries in relatively cushioned drabness.

"You may be sure our staff will be reduced very significantly, in my opinion by at least 30 per cent," said Mr Ugarov.

A final unknown for Comecon is how East Germany, currently in the process of merging with West Germany, will fit into the organisation. Diplomats say that it wants to remain, mainly to act as a bridge for a new Germany into east European markets.

Report shows strong French economic growth

By George Graham in Paris

FRANCE'S national economics institute, Insee, has ridden to the rescue of Prime Minister Michel Rocard, under attack both from President François Mitterrand and from his own Socialist Party for being too managerial and not socialist enough in his economic policy.

In a report published this morning, Insee delivers an enthusiastic assessment of the strength of the French economy last year, with growth of 4.1 per cent sustained by buoyant capital investment and strong exports.

Besides hailing the control of inflation and the strength of the franc – plaudits to which the government has become accustomed in recent months but which irritate many in the Socialist Party - Insee warmly notes the reduction in unemployment and France's solid performance in job creation over the last two years.

"A sustained level of activity is favourable to job creation, but above all growth is itself becoming richer in employment," the institute says.

Over 280,000 jobs were created last year, 60,000 more than in 1988, Insee says. Above all, these jobs have been permanent, rather than in temporary and part-time work.

Unemployment declined last year to around 9.5 per cent, but Insee says the real unemployment rate may be lower, more like 9 per cent. Youth unemployment has fallen particularly sharply.

The results will comfort Mr Rocard, who last week had to defend himself on television against charges of having "a wallet in place of a heart". The prime minister wants to be left in office until the next legislative elections in 1993, and to be judged then on his results.

A recent chill in relations between the prime minister and Mr Mitterrand, and between their staffs, has raised doubts over whether Mr Rocard will be allowed to remain in office that long, which would constitute a record under France's Fifth Republic.

● France's population has reached 58.5m, according to this year's census, up 2.4m from the last census in 1982. The mainland population grew by 2.2m to 56.56m, while the population of France's colonies rose by 200,000 to 1.8m.

1989: Une Economie Plus Forte published by Insee, price FFr130.

Law on racial discrimination intended to combat Le Pen

By William Dawkins in Paris

A CONTROVERSIAL law toughening penalties against racial discrimination passed its final legislative hurdle in the French Parliament over the weekend.

The scheme, drawn up by the Communists and backed by the ruling Socialist Party, is an important part of the government's attack against the growing popularity of Mr Jean-Marie Le Pen, the vocal leader of the extreme right National Front (FN).

It has been denounced by the centre-right opposition, which voted against the scheme, as a curb on the freedom of the press to report racist events. However, the government maintains that the penalties do not apply to journalists or newspaper directors.

People found guilty of racial discrimination or provoking discrimination can from now on have their civil rights, including the right to be political candidates, withdrawn for up to five years. This is first time France has introduced such a punishment for racism.

The law also introduces a new crime, "revisionism", meaning any attempt to re-write the history of crimes against humanity. This is directly aimed against Mr Le Pen, who is famed in France for his once public dismissal of the Nazi holocaust as a "detail of history".

Mr Le Pen's ability to stoke up racial hatred in a country where national identity, especially in some parts of the working class, is felt to be threatened by European integration and a high number of illegal immigrants, has won him 15 per cent support in recent polls.

Respectable right-wing parties' internal divisions over how to respond to the FN is also thought to have worked to Mr Le Pen's advantage.

At the same time as cracking down on racism, the government has drawn up plans for tougher action against illegal immigrants, estimated at between 300,000 and 1m people by Mr Hubert Prevot, a former head of the national planning agency, recruited earlier this year to advise the government on the integration of foreign residents.

WORLD ECONOMIC INDICATORS

INDUSTRIAL PRODUCTION (1985 = 100)

					% change over previous year
	May.'90	Apr.'90	Mar'90	May.'89	
US	116.2	115.5	115.5	114.7	+1.3%
Japan	124.8	121.9	123.1	119.9	+4.1%
	Apr.'90	Mar.'90	Feb'90	Apr.'89	
U.K	112.3	111.8	109.6	111.7	+0.5%
W.Germany	114.6	116.9	115.6	111.8	+2.5%
	Mar.'90	Feb.'90	Jan.'90	Mar.'89	
France	111.6	110.8	112.8	109.5	+1.9%
Italy	119.2	118.6	117.0	116.1	+2.7%

Source: (except US) Eurostat

EC offers freedom of the roads to animals

A touchy issue is resolved, with a deal on slaughter of sick herds, writes Tim Dickson

FREE circulation of cattle, pigs and sheep may not capture the imagination in quite the same way as the free movement of people.

Yet last week's decision by European Community agriculture ministers to scrap border controls on live animals is a breakthrough on the road to 1992.

National sensitivities in the negotiations have been particularly acute because of fears that a single market could expose member states to much greater risks from disease.

Few need reminding of the damaging economic consequences of foot and mouth disease – an airborne scourge which spreads through herds like wildfire – while the effects of classical swine fever have been on view this year in Belgium, where hundreds of thousands of pigs have had to be slaughtered.

Until Monday and Tuesday's meeting of farm ministers in Luxembourg – an event inevitably overshadowed by the simultaneous EC summit in Dublin – the fear in Brussels was that the live animal issue might be too touchy to resolve ahead of the January 1 1993 deadline to which the Community is politically committed. While there are still problems to be ironed out, the fact that the Council has been prepared to put signatures to the principle of removing border controls in this area means there is a sporting chance that the timetable can now be met.

THE EUROPEAN MARKET

Veterinary checks will, of course, continue to be carried out by EC and national experts at the point of departure and at the point of arrival, but the removal of frontier delays and of some of the paperwork should give a considerable boost to what is a big business.

According to the most recent Agricultural Situation in the Community report published in Brussels, intra-Community trade in beef and veal exceeded 3.1m tonnes in 1988, while some 3.7m. tonnes of pigmeat and 334,000 tonnes of sheepmeat were transported across EC frontiers in the same period (these figures include live animals based on the carcass weight equivalent).

The deal last week could never have been struck without an accompanying agreement by member states to abandon the still widespread practice of vaccination against foot and mouth disease in favour of the compulsory slaughter of "sick" herds.

Vaccination, according to EC experts, has a tendency to conceal the disease and they suspect quantities of "live" vaccine of actually causing a recent outbreak in Italy. Britain, Ireland and Denmark have long been in favour of a slaughter policy, while important customers like the US and Japan are only prepared to buy meat on this basis.

Most member states, however, are deeply reluctant to give up vaccination for fear of outbreaks of disease.

In France's case the decision was the more pertinent because of the strong influence of the pharmaceutical lobby, which stands to lose an important market. Calculations in Brussels suggest that EC-wide vaccination costs anything between Ecu1bn (£710m) and Ecu2.5bn over 10 years.

The commitment to stop vaccination from January 1 1992 (a full 12 months before border checks finally go) has been made only on condition that national vaccine banks are allowed to continue, for use in emergencies, and provided the Commission comes up with adequate safeguards to prevent the disease being imported from outside the Community.

These proposals are still being drafted in Brussels, and according to one senior official the negotiations with member states later this year are bound to be tough. Brussels is well aware that some governments believe there are ports in the Community where the authorities are dangerously lax.

Whatever the outcome, there is bound to be tensionbetween the second half of next year – when member states should have their "anti-vaccine" legislation in place – and the end of 1992. The risk of outbreaks will be greatest during this 18-month period and the compulsory slaughter policy will thus be put to the test.

"To some extent it is an act of faith. We are really putting the Community's money where its mouth is," an EC diplomat admitted last week.

Even with animal health matters out of the way, farm ministers still face a big challenge in harmonising rules to protect the consumer. A big issue, for example, is the Commission's plan for a so called "single standard" for EC abattoirs – a necessary complement to the single market and an instrument which is badly needed to improve hygiene in some member states.

At the moment, only a relatively small proportion of slaughter houses – two out of 90 in Portugal, for instance – are formally approved by the EC to export their meat products. Danish abattoirs are widely considered to be the best; those in Britain are by no means at the top of the Community's league.

Another directive yet to go through the Council covers fresh meat: rules to be harmonised across the EC will cover chilling requirements, the period when the meat can be on sale, and the like.

Last week's Agriculture Council could prove to be a turning point in relations between the European Commission and member states.

The reason is what many see as a breakthrough in the long-running battle on "comitology" – a piece of Euro-jargon which refers to the different types of committee which can be set up to implement EC directives.

Seldom the stuff of headlines, negotiations on a range of single market items have been complicated in recent years because of the Commission's insistence on a committee structure giving it maximum power.

Member states have been equally determined to keep control, but have only been able to do so by a unanimous vote. The result has been less majority voting than would otherwise have been the case and more opportunities for governments to weaken underlying directives. Last week's agreement that the comitology question be treated separately could be a sign that good sense has finally prevailed.

Norway hit by oil strike

By Karen Fossli in Oslo

NORWAY, western Europe's second-biggest crude oil and third-biggest gas producer, was yesterday forced to wind down output from 23 oil and gas production platforms as a strike by workers began to bite.

Mr Johan J. Jacobsen, Local Government and Labour Minister, failed to resolve the deadlock in annual wage negotiations after intervening in talks on Saturday.

OFS, the oil workers' collective union, is demanding a 4.25 per cent pay rise, improved conditions and the right to free wage talks. The OFS and the employers' Oil Industry Association remained as far apart as ever yesterday in resolving the conflict.

The employers had offered a pay deal in line with a nationwide 4 per cent agreement made this spring for other union members.

Norway produces close to 1.7m barrels of oil a day and roughly 2bn cubic metres of natural gas a month, which provides more than 25 per cent of the country's export revenue of about NKr200m (£17m) daily. In addition, each day production is halted there will be a loss in taxes and royalties received by the ailing state coffers from domestic and foreign producers.

The last offshore strike in 1986 halted crude oil and natural gas production for 19 days but was ended after the government imposed a mandatory pay settlement. Norway's centre-right coalition government said it had no plans to intervene in the current strike, which could last indefinitely.

OECD optimism on growth

By Karen Fossli

RISING petroleum production will spur growth in Norway's economy over the next two years and may also help the government budget from sliding into deficit, according to a half-year report by the Organisation for Economic Co-operation and Development. The OECD said Norway's mainland economy, which excludes petroleum and shipping, picked up in 1989 after two years of contraction.

"Continued large increases in oil and gas output... will show up in higher growth rates for total activity than for mainland output. However, growth of onshore output is itself set to accelerate, driven by increases in mainland demand," according to the OECD.

The report warned that in spite of gains in real disposable household income, which have been reflected in higher savings rather than increased consumption, Norway's savings ratio was nevertheless negative in 1989 and will remain remain so in 1990, improving only marginally in 1991.

Norway's unemployment – 5 per cent in 1989, the highest since the depression – will remain at that level in 1990 and decline to just 4.9 per cent in 1991, the OECD forecast.

Consumer price increases have fallen to the lowest rate in a decade, and below the OECD average, helped by strong gains in productivity. Inflation in 1989 was put at 4.4 per cent versus 7.6 per cent in 1987.

The OECD forecast a current account surplus of $1.6bn (£930m) in 1990 and $3.2bn in 1991.

INTERNATIONAL NEWS

Australia and New Zealand in free trade deal

By Kevin Brown in Sydney

AUSTRALIA and New Zealand yesterday took a big step towards integrating their economies with the completion of a Closer Economic Relations (CER) agreement which establishes free trade in goods across the Tasman Sea.

However, New Zealand appears likely to be rebuffed in the short term in efforts to extend the agreement to cover investment and access to Australia's telecommunications and civil aviation markets.

The two countries have been moving towards free trade since 1965 when 1,000 goods were placed on an initial tariff-free list. But progress was slow until the CER took effect in 1983, with the objective of achieving free trade in physical goods by 1995.

The timetable was speeded up three years ago after an agreement between Mr Bob Hawke, the Australian Labor Prime Minister, and Mr David Lange, the former New Zealand Labour Prime Minister.

The agreement has been immensely successful for New Zealand, which has gained free access for its low-cost agricultural exports to the relatively large Australian market of 17m people. Trans-Tasman trade has grown from 11 per cent of New Zealand's total trade 30 years ago to around 19 per cent, and is roughly in balance, compared to a 4 to 1 imbalance in Australia's favour in the 1950s.

The abolition of requirements for work permits and visas has also led to a significant exchange of populations, particularly during the recession which has gripped New Zealand in the last three years. More than 300,000 New Zealanders now live in Australia, and around 50,000 Australians have crossed the Tasman in the opposite direction.

CER is of less significance to Australia, for which the small New Zealand market of just over 3m people is a lower priority than traditional markets in Europe and North America and the growing economies of Asia.

Trade in services is scheduled to be reviewed by the end of this year but progress is likely to be hampered by the slow progress of domestic reform in Australia. Agreement on a common investment regime is complicated by an Australian treaty guaranteeing that no country will be given a more favourable investment regime than Japan.

Sharon: given powers to bypass planning regulations

Israel in housing drive for Soviet Jews

By Hugh Carnegy in Jerusalem

THE Israeli cabinet yesterday adopted emergency powers for a house building programme to help absorb a flood of Soviet Jewish immigrants. The number of arrivals reached almost 50,000 in the first six months of the year, according to new figures.

Ministers agreed a provision allowing Mr Ariel Sharon, the Housing Minister and overall immigration chief, to bypass the country's complex building and planning regulations for three months. He intends erecting 3,000 pre-fabricated housing units in nine locations around the country, with more to follow later.

None of the locations is in the occupied territories, or annexed areas of Jerusalem. But Palestinians fear that even without a deliberate settlement policy, the shortage of housing and rising prices within Israel's pre-1967 borders will push more Israelis towards Jewish settlements in the West Bank and Gaza.

An Israeli opposition politician said the Government had funded more than 580 housing starts for Jews in the territories between January and May.

The Jewish Agency, responsible for bringing in immigrants, said 49,989 Soviet Jews had arrived this year up to the end of June.

Total immigration for the half year, including from other countries, topped 57,700, more than twice the total for the whole of 1989.

The monthly rate of influx from the Soviet Union has flattened out around the 11,000 mark over the last three months. Officials say this was due to logistical obstacles rather than a slowdown in demand for visas or any new obstacles raised by Moscow, which has warned Israel against settling immigrants in the occupied territories.

One official said 15,000 were expected this month form the Soviet Union as families moved after the end of the school year. Some 150,000 are still expected for the year as a whole.

The Housing Ministry will this week invite 150 foreign companies to bid to supply pre-fabricated houses – most of them from the US, Britain and South Africa. Mr Sharon plans eventually to import up to 40,000 units.

He is supported by Mr Yitzhak Moda'i, the Finance Minister, who has the task of ensuring that extra spending on immigration does not bloat the budget deficit this year beyond a target of 5 per cent of gross national product.

Mr Moda'i told reporters yesterday, the fifth anniversary of a tough stabilisation plan that halted hyper-inflation and runaway deficits, that immigration absorption was the main short-term concern.

But he stressed his commitment to accelerating reforms in the economy, such as dismantling foreign exchange regulations, incipient dollar and inflation linkage, wages and price fixing and rigidities in agriculture.

Links 'cut' to Cambodian capital

KHMER ROUGE forces have cut all roads linking towns in northwest Cambodia with the capital Phnom Penh, the radical faction's non-Communist allies told Reuter.

An official of the Khmer People's National Liberation Front claimed that Khmer Rouge attacks had isolated the important towns of Battambang and Siem Reap. "Phnom Penh cannot get economic supplies from Battambang and Battambang cannot get military supplies from Phnom Penh, except by air," he said. No independent confirmation was available.

New Arab meeting

The Arab League has proposed July 16 for an emergency meeting of foreign ministers on the Israeli-Palestinian conflict and the US decision to suspend talks with the PLO, Reuter reports from Tunis. The meeting, originally set for last Wednesday, was postponed when too few ministers were able to attend.

Monrovia siege

Rebels trying to overthrow Liberia's President Samuel Doe killed at least three government soldiers near Monrovia's port yesterday and tightened their siege of the capital, Reuter reports. A grenade also hit a truckload of government reinforcements, soldiers said, but there were no details of casualties.

Burma landslide

Burma's military government yesterday published final results of multi-party elections held five weeks ago, confirming an opposition landslide which most Burmese had known about within hours of polls closing, Reuter reports from Rangoon. In a surprising display of defiance to nearly two years of brutal army rule, voters gave the opposition National League for Democracy 397 of 485 seats contested.

Sri Lanka talks

Mr Bernard Tillekeratne, Sri Lanka's Foreign Secretary, went yesterday to Delhi for talks with India's Government about the continuing war against the Tamil tigers, writes Mervyn de Silva.

ANC calls strike to put pressure on Buthelezi

THE African National Congress has called a nationwide strike for today to put pressure on Zulu tribal leader Chief Mangosuthu Buthelezi and the white minority government, Reuter reports from Johannesburg.

Political analysts say the ANC's protest is a gamble which could result in violence and an embarrassing defeat in a test of its strength with other black groups.

Left-leaning ANC supporters have been fighting Chief Buthelezi's more conservative Inkatha movement for three years in the province of Natal and in the KwaZulu tribal homeland.

The ANC has called the strike to try to force President F.W. de Klerk to dismantle Chief Buthelezi's KwaZulu power base, as a step towards ending fighting which has claimed more than 2,500 lives.

"The terrible carnage in Natal must stop. The situation calls for a national response," the ANC said in its strike call.

Mr Robert Schrire, a Cape Town University political scientist, said the ANC, with its allied trade unions and community groups, might have made a tactical miscalculation.

The ANC needs to maintain an impression of strength to boost its position in coming talks with the Government on a future constitution.

Coup plot may spur Zambian crackdown

By Mike Hall in Lusaka

ZAMBIANS are bracing themselves for a crackdown on dissent and a possible purge of the army by President Kenneth Kaunda's shaken government following the coup attempt early on Saturday by what appears to have been a small group of junior officers.

"I have been asking myself whether the law of the land we have been following is the right one. . . There have been many coup attempts and we must ask ourselves whether we have been too soft on these criminals," Mr Kaunda said at the opening of an international trade fair in Ndola in central Zambia. The hint at a crackdown may well leave those Zambians who advocate a return to multi-party politics feeling uncertain about their freedom to campaign.

Mr Kaunda, who apeared hurt and angry on Zambian television on Saturday evening, has promised a referendum on the issue on October 17, only 16 weeks away. He opposes any change to the one-party system, arguing that it would exarcerbate tribal rivalries.

At least four junior army officers, led by Lt Mwamba Luchembe, are now thought to have been involved in the takeover of the media complex in Lusaka. Lt Luchembe is believed to be a member of the Bemba tribe, one of the country's largest ethnic groups.

The state-run media reported that he had been detained and that only two other officers were involved. He is thought to be held at Chamba Valley prison near Lusaka, where Lt-Gen Christon Tembo, accused of leading a coup plot in 1988 and now on trial for treason, was initially questioned.

It is unclear how many army officers were involved. But the coup announcements, broadcast over a three-hour period, were welcomed by many among the army rank-and-file, as well as thousands of civilians in the Zambian capital. "It has clearly been a thermometer for the army," said one observer. "They have seen the reaction of civilians and they know what to expect if it happens again: substantial support."

After last week's traumatic events, pro-democracy activists will need time to gather forces.

A key figure will be Mr Frederick Chiluba, chairman of the Zambian Congress of Trade Unions. He is popular among a broad cross-section of urban Zambians and the most outspoken critic of the government. Mr Chiluba was detained for four months in 1981. He is believed to be in Geneva attending a conference.

Managua overhauls tax system

By Tim Coone in Managua

NICARAGUA yesterday introduced a substantive tax reform and converted all public and private accounting standards to a new monetary unit, known as the "gold cordoba", which has parity with the US dollar.

Mr Emilio Pereira, the new Finance Minister, said that the reform would reduce and simplify property and income taxes and eliminate a complicated system of exonerations.

He said that the reduction of nominal tax rates would increase overall tax collection "to guarantee a return of 18-20 per cent of GNP to help maintain fiscal stability".

A large fiscal deficit to finance Nicaragua's war effort has been the principal factor fuelling hyperinflation.

Private enterprise will benefit especially. Previously companies faced taxes as high as 85 per cent on profits, due to a share dividend tax payable in addition to standard income taxes. Industrial, agricultural and commercial enterprises will now pay a maximum tax on profits of 38.5 per cent.

New banknotes are to be introduced and the old currency gradually withdrawn. The "old" cordoba is presently valued at over 400,000 to one US dollar on the black market.

Uruguay clinches $150m standby credit from IMF

By Gary Mead in Buenos Aires

MR Enrique Braga, Uruguay's Economy Minister, has announced a new stand-by credit worth $150m (£87m) from the International Monetary Fund, which has approved the economic reforms introduced by the recently inaugurated President Luis Lacalle.

The new loan will be disbursed over the next 18 months and is mainly aimed at helping central bank reforms. However, Mr Braga suggested that some of it might be destined for government buy-backs of Uruguay's $4.33bn public sector foreign debt, currently trading on secondary markets at 55 cents to the US dollar.

Agreed targets with the IMF include reducing the fiscal deficit from 1989's 6.1 per cent of gross domestic product to 2.5 per cent for 1990; cutting inflation from last year's 89.3 per cent to 37.7 per cent, and 30 per cent for 1991; and growth of 2 per cent of GDP during 1990.

Mr Lacalle has placed before Congress several cost-cutting measures, including a 15 per cent reduction of government spending. Mr Braga said: "In 15 or 20 days we will present a final proposal to the committee of commercial banks to reduce the weight of Uruguay's external debt, as part of the Brady Plan."

Argentina frees imports

By Gary Mead

MR Antonio Erman Gonzalez, Argentina's Economy Minister, on Saturday announced measures aimed at fine-tuning his economic reforms.

While most were widely forecast, some have raised doubts about the determination of President Carlos Menem's government to maintain strict fiscal controls in a period of continuing economic instability.

Speaking from the province of La Rioja, the home of President Menem, on the President's 60th birthday, Mr Gonzalez promised to eliminate bureaucratic barriers to a wide range of imports; to step up pressure against tax evasion; create legislation favouring domestic economic competition; audit more closely state-sector purchases; and cut export duties on certain manufactures.

More controversially, Mr Gonzalez promised to reinstate an industrial promotion scheme, suspended in recent months as part of government cuts.

Optimists and pessimists vie in their forecasts but none has any doubt that the operation will succeed

The period of creative destruction begins for East Germany

THE East German economy stands on the edge of "the greatest crash in world history". The words not of a Communist scare-monger but of Mr Klaus Reichenbach, a senior minister in the country's Government.

He believes that at least 25 per cent of all companies cannot survive and should be allowed to die, that a further third can survive with little external support, and that the rest have medium-term potential but need plenty of short-term aid.

Such calculations are now commonplace in the two Germanys. Equally uncontroversial is the assumption that the East German economy will look much like the West German by the end of the decade. Where there is plenty of disagreement is on how damaging the intervening process of creative destruction will be.

The pessimists and optimists are usually divided by their unemployment estimates. Most of the main economic forecasters are clustering around the 1.5m-2m level, but the

leading pessimist is Mr Reiner Pilz, the West German businessman involved in the first all-German joint venture, making compact discs, who is prophesying 4m.

He believes that 80 per cent of East German goods will find no market in future and that half of the country's 9m workers will lose their jobs, most of them for more than a transitional stage. His answer is a far more generous West German grant for investment in East Germany of 30 per cent (instead of the planned 12 per cent) over the next five to eight years, at a cost to West Germany of DM250bn (£86.5bn).

Mr Helmut Rödl, chief of the West German economic intelligence unit Creditreform, believes that 50-60 per cent of all East German companies will have to close but sees unemployment peaking at 2m. Some businessmen at the optimistic end of the scale, such as Mr Heinz Durr of AEG, believe the jobless can be kept to 1m.

Few people are publicly predicting unrest in the event of mass unemployment, although Mr Wolfgang Pohl, the East German Economics Minister, did talk of a "hot autumn". Unemployment benefit for a worker with one child will average DM650 (£225) per month. That is based on the West German unemployment benefit system of 68 per cent of the previous net wage. Employers and workers will each contribute 2.5 per cent of their gross wage to the benefit system (workers will pay in total about 17 per cent of their gross wage to cover health, pensions and dole).

Bonn is topping up the benefit system with DM3bn both this year and next. There will also be extra cash for retraining, short-time working, and the "social plans" accompanying plant closures.

None the less, a large number of East Germans will see their purchasing power reduced. How long that lasts depends on how swiftly the widely expected 5-10 per cent annual growth arrives.

Professor Norbert Walter of Deutsche Bank is expecting by 1995 an average rate of growth of 8 per cent for East Germany and 3 per cent for West Germany, giving a combined rate of 4 per cent.

However, the DIW economic institute in West Berlin, the only institute to predict shorter-term growth rates, is expecting a drop in East German GNP this year of about 10 per cent in real terms and a further fall of more than 5 per cent in 1991.

The next double act which allows West Germany to benefit from East German-inspired faster growth, giving it the healthier public finances to support the restructuring of the East, means few long-term worries about the costs of unity. But figures such as those sketched by the DIW may mean that shorter-term costs will be higher than the Finance Ministry in Bonn hopes.

The DIW says that the public sector deficit in East Germany will be "very much higher" than Bonn expects (current estimate is DM33bn in the second half of 1990, and DM58bn in 1991). And Mr Walter says that short-term costs will be higher than necessary because of the collapse of East Germany's tax system.

In spite of this, the DIW is expecting total government borrowing in both Germanys in 1990 and 1991 to come out close to Bonn estimates of roughly DM60bn and DM90bn respectively.

Although inventing all-inclusive figures for the private and public sector costs of unity has gone out of fashion, Mr Heinrich Franke, president of the Federal Labour Office, has laid claim to one of the biggest figures – DM2,000bn.

One of the oddest predictions of all, again from the DIW, is that over the next 50 years the population of the current East Germany will fall by a third from 16.4m to 11m, despite the fact that population density is already almost twice as high in West Germany. Such a view seems to imply that the "great crash" will go on indefinitely.

David Goodhart

KEY DATES IN GERMAN HISTORY

■ **1945 May** Nazi Germany capitulates
August Potsdam conference divides Germany and Berlin into four occupation zones
■ **1948 June** Western powers carry out currency reform, introducing D-Mark. Soviet Union responds with blockade of Berlin, leading to Allied airlift
July Soviet Union withdraws from Allied Command in Berlin
■ **1949 May** Basic Law adopted, establishing West Germany
August First federal elections in West Germany. Konrad Adenauer elected Chancellor
October East Germany established
■ **1953 June** Soviet troops suppress uprisings
■ **1954 March** Soviet Union grants East Germany sovereignty
■ **1961 August** Berlin Wall goes up
■ **1969** Willy Brandt elected Chancellor, introducing Ostpolitik
■ **1989 October** Honecker resigns. Egon Krenz succeeds him. Wall is opened
■ **1990 February** West Germany offers monetary union to the East
March First free elections in East Germany

■ THE BATTLE OF THE MARKS

Currency blighted from birth

THE East German Mark lost out to its powerful counterpart, the D-Mark, the moment the two currencies were born in 1948.

As a non-convertible currency, the Mark's official exchange rate to the D-Mark was 1 to 1. But the unofficial rate in West Berlin exchange bureaux quickly fell to 5 to 1 and at one stage in 1953 plummeted to nearly 30 to 1.

Its high point came with the building of the Wall, which closed off East Germany and gave the currency a scarcity value on the black market of nearly 2 to 1.

But it slid again from 1986 onwards, sinking for a brief moment after the opening of the borders last November to a low of 20 to 1 and then wavering around 9.5 to 1. Its health was restored only when currency union was agreed with West Germany.

The power of the D-Mark was not restricted to its simple exchange rate. For decades East Germans needed it to buy desirable consumer goods, services and even houses. Increasingly, East German society was divided into those who had access to D-Marks and those who did not.

The East German Government's hunger for D-Marks led to the establishment in the 1960s of a chain of hard currency shops which sold western goods for D-Marks. East Germans obtained D-Marks from visiting western relatives and friends and spent most of them in the official shops.

By the early 1980s few services could be readily obtained without payment in D-Marks. A plumber in Leipzig told a woman that the earliest he could install her hot water boiler was in six months' time; when she offered him DM50 he said he would come the next week.

Many East Germans on holiday in eastern Europe would be treated as second-class citizens. An East German queuing at an exchange booth at Budapest airport, for example, would bridle as he watched the West German in front of him being given five times as many forints for his D-Marks as the East German got for his Marks.

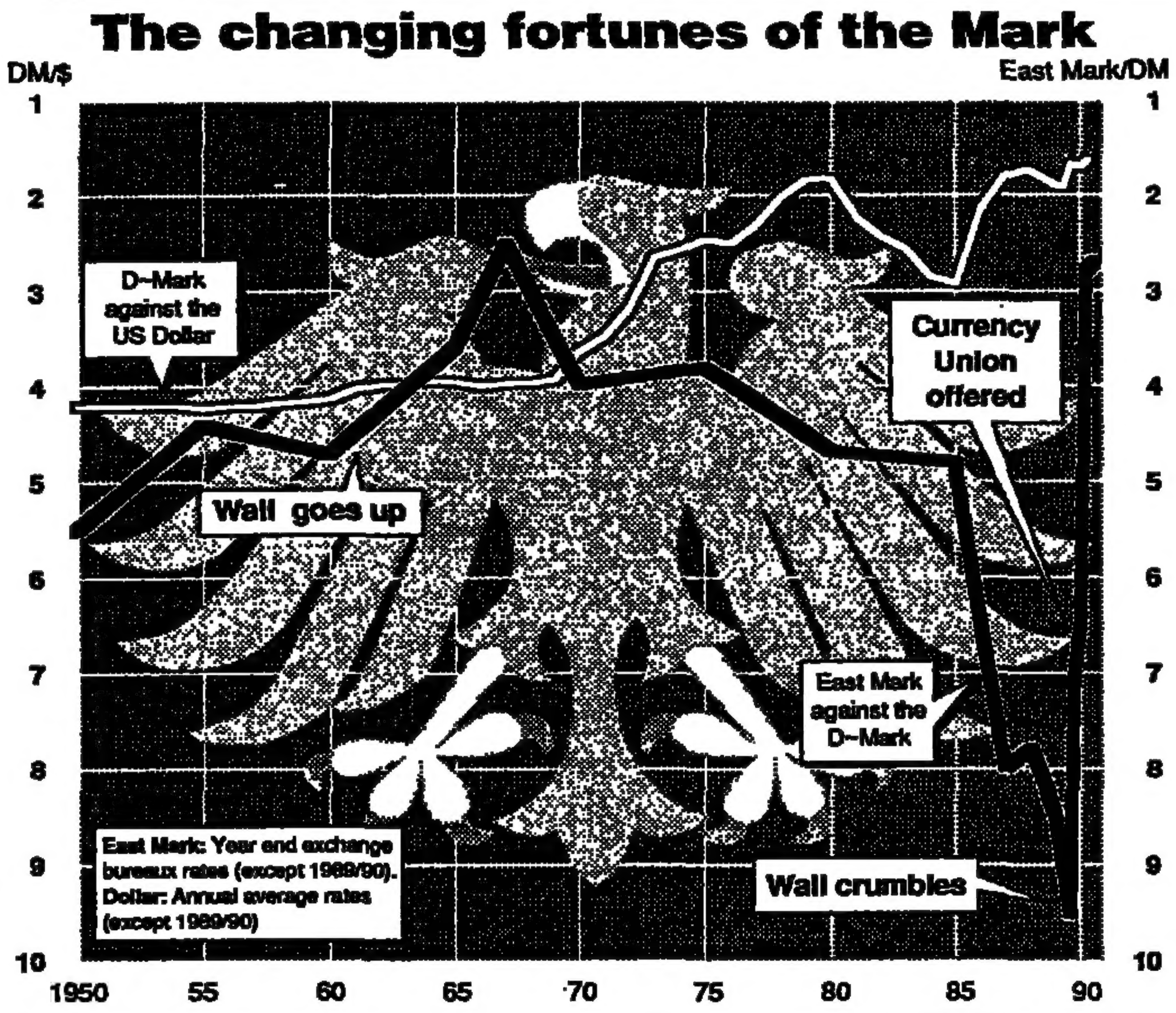
The most desirable occupations in East Germany were connected with travel to the west, where hard currency could be obtained. Successful athletes, foreign trade officials, theatre and opera directors were among the privileged who had access to "West Marks." Dissident writers who were not allowed to publish in East Germany often lived off their not inconsiderable western incomes.

But the most envied East Germans were those who inherited property in West Germany and received income on a West German bank account. East Germans were not permitted to have accounts in the west but there was nothing to stop them withdrawing D-Marks at regular intervals – in person if they were of retirement age and could travel to the west or through a power of attorney – and putting them to use in East Germany.

The Government even catered to them by allowing them to order everything from western cars to building materials from Genex, a company in Switzerland controlled by the Communist Party.

Leslie Colitt

The changing fortunes of the Mark



■ BELEAGUERED BOSSES

Managers plead for a fair chance to make good

ONLY a small number of the East German business elite have lost their jobs since last November, but a lot more will go over the next few months as *monetary union forces the closure* of thousands of companies and weeds out the bureaucrats in those that survive.

Already many bosses are occupying a different legal, if not physical, space. Almost all the 250 *Kombinate* (industrial conglomerates) have been broken up and their former central managements have either formed a holding company, with a quasi-consultancy role, or distributed themselves around their constituent companies.

It is taking longer to convert the country's 8,000 companies (with more than 250 employees) into public limited, or merely limited, companies, before potential privatisation. Fewer than 2,000 have made the change, although they include most of the largest and best known. The rest have *until* October to do so.

A few of the bosses most closely associated with the old regime, such as Mr Wolfgang Biermann of Carl Zeiss Jena, have gone in the past few months, as well as a few old men reaching retirement age. But most, like Mr Peter Kahlert, head of the printing machinery group Planeta, have stayed put.

Most of the survivors like Mr *Kahlert appear to be* pragmatic, hard-working men who struggled against the grain of central planning to keep their companies ticking over.

To the outsider these men, more modest in manner and appearance than their West German counterparts, seem rather admirable. They may not have been heroes but many had reforming tendencies – at least in the economic sphere – *and unlike many of their* compatriots were prepared to shoulder responsibility.

From inside East Germany it looks rather different. The bosses, always party members, were to most workers just local representatives of the system. Their powers of survival, and, in many cases, their swift advocacy of market methods, have singled them out as the opportunists *par excellence* of the change of regime.

"As a group we have virtually no credibility, so nobody asked our advice on what to do for the economy," says Mr Kahlert. "Even under the interim Modrow Government we were shunned. Workers, schoolchildren, even prisoners, made their protests and got what they wanted; the senior managers did not go on strike so nothing was done for the economy."

Mr Kahlert himself joined Planeta from technical high school in 1965. After various engineering posts he became head of research in 1978 and two years ago head of the whole company.

He and many of his fellow managers speak of the future with a mixture of fear and *defensiveness.*

"We have been given no chance to reform our own system, so many sectors will just be steamrollered by imports," says Mr Thomas Pfarschner, an executive at Carl Zeiss Jena. He subscribes to the popular theory that the West German Government, in league with West German capital, is deliberately driving East German businesses to the wall so *that it can pick up the pieces* for a fraction of their real worth. Such attitudes make many East German bosses keen to co-operate with non-German western partners.

The East Germans point out that Spain and Portugal had longer to adapt to European Community membership and started from a market economy base. Nixdorf, the West German company which has just lost DM1bn in a *single* year, has also been seized upon with glee. "Nobody is asking Nixdorf to return to profit tomorrow," says Mr Pfarschner.

Criticism is also directed against East German institutions. "We have not developed an industrial policy to allow us to concentrate resources on those sectors that we think should survive," he says.

And there are *loud* complaints that the peculiarities of East German corporate life – for example the fact that no earnings were retained and credit was required to finance current assets – *have not been* taken into account in the currency conversion. "We don't want new subsidies, we just want fair treatment," says Mr Pfarschner.

Some believe that the improvisation required to circumvent the failings of central planning, in materials supply for example, has equipped East German managers to survive in a market economy. But Mr Rolf Hillig, deputy head of VEB Mikroelektronik, doubts such wheeler-dealer skills will be much use: "We had a plan and we improvised, now we have a market and we must plan".

His point is illustrated by the work of the "marketing director" of one East German company whose function was to hawk around any surplus goods his company had and exchange them for the things they desperately needed.

But West German consultants, who are working alongside most of the East German companies with potential, are not wholly disparaging. "They are having to learn a lot of things from scratch but *some of them are learning quickly,*" says one

David Goodhart

■ VILLAGE VIEW

'We've had enough of shortages'

ONLY A few minutes walk from where the border brutally cut off all contact with the west until eight months ago, the arrival of the D-Mark was being celebrated with a brass band yesterday.

Around the main square of the picturesque but shabby East German border village of Vacha, shopkeepers were putting the finishing touches to their new displays of western goods.

Brand new televisions, washing machines, and video recorders awaited those eager to spend their hard currency for when shops opened this morning.

The toy shop had been restocked with a colourful array of new toys, with a Barbie doll poster prominent in the window. Pfaff sewing machines were on show in a renovated shop a few doors away from the travel agency which offered holidays in Majorca, Ibiza, and Spain.

Inside her confectionery and spirits shop in a 400-year-old fairy tale house which was being repainted, Mrs Elke Schmidt, 49, was looking forward to the new times. "Now, business is fun. We've had enough of living in an economy where everything was in short supply."

Yesterday, her small counter was stacked with cans of Coca-Cola, rum and cola, and bourbon and cola, and the shelves behind filled with whisky, wine, brandy, and schnapps. Pointing proudly at her newly stocked sweet counter, she said: "This is a paradise for kids."

The children may miss the historical significance of yesterday's currency union. But with unemployment *looming – the local potassium* works is expected to shed nearly half of its 7,500 workers – most adults were not thinking of going on a spending spree.

"If you're certain of having a job, then you can fulfil your wishes," said Mr Lothar Koch, 37. He was changing DM1,000 at a nearby mobile savings bank branch, but did not intend to blow it on goods.

"We've got to wait and see if we have a job or not," agreed Mr Rudi Iszbrucke, 36. "We mustn't try and jump over our own shadows." However, he had committed most of his DM2,000 – the maximum convertible on a one-for-one basis in the first week – to a new colour TV from the revamped electrical store in Vacha.

Mrs Helga Kranz, 63, a pensioner, was also going to buy a colour TV. But she expressed the caution of many. "We've had to wait for so long. We've learned to be modest, to adjust, to save, and keep our ears' open. We're not going to let our money go so easily."

But there is a huge pent-up demand for quality goods in East Germany. Mr Harald Weih, 46, joint manager of the electrical goods shop, said its new stocks of western televisions, videos, radios, kitchen goods, and vacuum cleaners were worth nearly DM100,000.

"Things have got to happen fast. We've got to react quickly or we're finished," he said of the challenges facing businesses.

"All of my school mates went over (to the west) except me," he added. Now, his patience may be rewarded. The watchtower on the small stone bridge over the nearby River Werra is empty and the barrier has gone. For the people of Vacha, the long years of angry frustration are over. Whatever the economic problems ahead, the coming of the D-Mark has certainly brought a new spirit to the village.

Andrew Fisher

Three hundred D-Marks for 300 East Marks. This East German clearly feels he's been given a good deal

■ BUSINESS OPPORTUNITIES

Foreign companies wonder how best to get into the market

FOREIGN businessmen have mostly held back, watching with bewildered fascination as the two Germanys have swept along the path to currency and *economic union. Should they* become involved, and if so, how?

The answer to the first question is Yes, firmly endorsed by the both governments, as well as bankers, economists, and diplomats. The second is harder. Companies with West German subsidiaries have no problem; forays can be made into the East from their existing base. For those with no *ready-made structure, the* obvious route is a bank or consultancy, or to take advice from embassies. Going it alone is only an option for the very bold and deep-pocketed.

Clearly, there are considerable risks. Moreover, West German companies will obviously predominate in the rush to rebuild, and profit from, the East's dilapidated economy.

Thus many foreign managers assume, not surprisingly, that the country will be, as one Austrian businessman put it, a protectorate of West Germany. But the opportunities are there. "Overnight, the German market's potential is being expanded considerably," says Mr Werner Gulonneau, managing director of Frankfurt Consult, the mergers and acquisitions arm of BHF-Bank. "If British and other foreign companies don't do something, it will be an all-German party."

Mr Gulonneau reckons the next six to 12 months will be crucial; companies leaving it later could find the doors closing. Others take a less dramatic view. "I am sceptical about pushing people in faster than they want to go," says Mr Andrew Miles, manager *responsible for eastern Europe* at the German operation of Price Waterhouse, the accountants and management consultants. "For years to come, there will probably be enough room for anybody who wants to go in seriously."

It will be up to entrepreneurs to decide when the time is ripe. Mr Wolfgang Handel, a partner with the Matuschka financial group, reckons the East German market's inefficiencies provide big profit chances. "The pioneers have the biggest chance, but also the biggest risk." Thus some companies might find it prudent to wait. "The window of opportunity will open slowly and keep opening wider," believes Mr Thomas Boam, US commercial consul in Frankfurt, who is now moving to East Berlin.

Some US companies like Coca-Cola, Compaq Computer, and Opel (part of General Motors) have already moved in. Coca-Cola has linked up with local soft drinks distributors and opens its first filling plant in East Berlin this month. It is investing $140m in East Germany, much of this in vehicles because of the abysmal transport facilities. Compaq will serve the market from West Berlin, working through *dealers who moved in from the* west. Opel is keen to build a car assembly plant, its main concerns being East German costs and employee motivation.

Other uncertainties include property ownership and bankruptcy arrangements. Communications are poor. Nor is it easy to find out who to talk to *at company, local authority, or* government level (including the *Treuhand*, the state holding company), even for those already active in the East.

But if they are prepared to cut through the confusion, some foreign companies may have more to offer than West German ones, which will mostly tend to serve East Germany from the west. Foreigners needing capacity are more *likely to invest directly in East* Germany. Some private companies have special expertise, such as France's Lyonnaise des Eaux, which is negotiating on improving water supplies.

Japanese companies, though less visible, are also keen to become active. UK industry has been more reluctant. One exception is Metsec, a Birmingham-based steel profile company using East Germany to add capacity to its more sophisticated operation in West Germany. Metsec is being advised by Frankfurt Consult.

As well as teaming up with someone who can make the right contacts, sheer grit is needed, too. "You have to make sure you get people to help who can roll up their shirtsleeves and are willing to live in a caravan rather than a luxury hotel," adds Mr Guionneau. So far, not many foreigners have shown much relish to do this.

Andrew Fisher

Prescription: shock treatment — prognosis: excellent

MONETARY union between East and West Germany brings back memories of the West German currency reform of June 21, 1948. There is one important parallel: the Germans have decided against "gradualism" and are applying the "shock treatment" which, under very different conditions, was so successful 42 years ago.

The impatience of the East German population to reap the fruits of their peaceful revolution in 1989, and the collapse of the Socialist planned economy, made unrealistic any question of a medium term step-by-step approach for the economy.

In contrast to yesterday's introduction of the D-Mark, the 1948 measures were prepared by the occupation powers in complete discretion. On June 19, 1948, when the spokesman of the US military government read out the allied currency laws over all radio stations, it was *the "event of the year"*.

There are also great differences as far as the conversion rate is concerned. As a consequence of the large monetary overhang resulting from unrestrained war financing, the currency contraction in 1948 had to be brutal. Apart from the distribution of a quota of DM60 per head, assets were exchanged at the rate of 16 Reichsmarks for DM1. East Marks are being converted into D-Marks at rates of 1 for 1, 2 for 1, or 3 for 1, depending on the age of the account-holder and other conditions.

The conversion, seen together with the system of social security which is being introduced, *appears* to represent a relatively generous, "soft" measure. *In fact, the* Bonn Government's offer in February of early monetary union, dispensing with a long transition period in which East Germany would have kept its own currency, was a decision in favour of a *hard* monetary path.

The East German economy will now be exposed to the full brunt of national and international competition. The "rich brothers" from the west are equipping the East German population with a convertible currency, freeing the economy from balance of payment problems. As one of the consequences, it is feared that consumer demand will be concentrated on foreign and West German goods – *resulting in an ill-thought out measure*, dropped at the last minute, of a temporary import tax to protect East German industry from "foreign" consumer goods.

The link with the D-Mark will end all East German industry's previous difficulties in importing raw materials, half-finished products and capital goods. It is, however, likely that the people will deploy their new money in a very sensible way, such as purchasing lower-priced domestic products, and building up savings deposits.

Whatever happens, the entire East German economy faces far-reaching structural change. It must throw off centralised planning to make way *for the market economy*, involving a shift to economic specialisation and the entry of modern technology. Many people will inevitably be put out of work. But they will be re-employed as new jobs are created – as long as East Germany starts to attract inflows of capital.

The position and the outlook in the summer of 1948 were qualitatively different. Only three years after the end of the war, living standards were extremely low, and we pinned all our hopes on the currency conversion. The announcement that goods controls would be lifted in stages after the currency reform was controversial, but in the final analysis it increased our confidence.

East Germany now has the great advantage that the Federal Republic can offer it the entire panoply of norms and institutions which make up a liberal-democratic system. Even though West Germany is extending financial aid for the East German budget, the main financial contribution should come through private capital flows, spurred on by creation of the right market conditions in the east. There is a good chance that such conditions will indeed be realised.

Certainly there will be problems during the transition period after the currency conversion, but these will be the prelude to economic recovery.

The efficiency of the market economy, the energy of the *East German population and* the experience of 1948 all lead to the same conclusion. The great and (more or less) unprecedented experiment which started yesterday will be a success.

Prof Karl Schiller

Member of the Social Democratic Party, West German Economics Minister between 1966 and 1972. He experienced the 1948 currency reform as a member of the advisory council of the West German economic administration and as a professor at Hamburg university.

Professor Schiller in ministerial days

Integrated Pollution Control criticised by leading companies

System to curb industrial emissions is 'unworkable'

By David Thomas, Resources Editor

LEADING CHEMICAL and oil companies have warned the Government privately that its new system of pollution control could prove unworkable and could damage the competitiveness of British industry.

The Environmental Protection Bill, which is still going through Parliament, contains a system designed to replace the previously piecemeal approach to controlling pollution from large industrial plants.

The system, known as Integrated Pollution Control, will introduce a number of novel methods, notably the requirement on plants to use "the best available techniques not entailing excessive cost" to control emissions.

The Chemical Industries Association, representing the UK's main chemical and petrochemical companies, has written to Mr David Trippier, Environment Minister, expressing grave concern about the system and seeking an urgent meeting to discuss it.

The association is reflecting the views of some of Britain's leading companies, including ICI and Shell, which stress that they are opposed, not to the legislation's objectives, but to some of the mechanisms in the bill. Their concerns include:

- Lack of consultation: industry says it has not been consulted on the details of the regulations, which are due to be published in draft from by the end of next month.

It also complains of widespread confusion as to how the system will work: "After months of discussion in parliament, we have no coherent statement as to what it is," a leading company said.

- Inadequate expertise: industry belives that Her Majesty's Inspectorate of Pollution has too few staff with the right skills to administer the system.

It is particularly alarmed by recent indications that the inspectorate may be too stretched to visit all the plants which will be regulated by the new system.

- Control of processes: industry is concerned that pollution control will in future concentrate on the processes and technologies within a plant, as much as on the plant's final emissions.

Companies believe this could harm their ability to respond flexibly to competitive pressures and could slow the pace of technological innovation.

"Our ability to change processes quickly is of paramount importance to our fine chemicals operations.

"It would be highly detrimental if these processes became bogged down in lengthy procedures," explained Mr Mike Wright, ICI's UK environmental adviser.

- Confidentiality: companies also say the new requirement for details of controlled processes to be made publicly available could result in commercial secrets being lost to foreign competitors.

"If we develop a catalytic process, the amount of detail we want to put into the public arena is little or none," one petrochemical company said.

Mr Wright at ICI added: "It would be harmful if we have to produce details of our technologies and make them available for all to see."

The Environment Department believes industry to be seriously overstating the difficulties.

It said industrial processes would be controlled only in exceptional circumstances and stressed that procedures would exist for processes to remain confidential, although it foresaw these being used rarely.

Market makers force exchange to drop rule changes

By Richard Waters

A PROPOSED change in the trading rules of London's International Stock Exchange, designed to give private shareholders a better deal on the stock market, has been dropped after pressure from a powerful group of market makers.

The market makers, which include some of the Exchange's largest members, objected that the new rule would hit their already waning profitability.

The proposal was the most controversial of a series of changes put forward over the last 18 months by the Elwes committee, a working group set up to propose an overhaul of the market's trading rules. The final part of the Elwes overhaul will be voted on the Exchange's council today.

The proposal involved the creation of a dealing mechanism for small holdings of shares. This was intended to make it possible for small shareholders to buy and sell at better prices than those available to the holders of large blocks of shares.

The keenest buying and selling prices for small amounts of shares would have appeared on a new "green strip" on the Exchange's Topic screens, distinguishing it from the existing "yellow strip" where the best market price for large blocks of shares appears.

This arrangement would have been used for deals worth 10 per cent or less of the so-called "normal market size" (NMS) for each company. Imperial Chemical Industries, for instance, has an NMS of 25,000 shares, meaning the proposed retail market would have traded lots of up to 2,500 ICI shares.

Market makers have campaigned vigorously against the creation of a two-tier market over recent months.

"We saw it as a real attack on margins," one large securities house, which refused to be named, said at the end of last week.

The market makers feared that institutional shareholders would demand the same treatment as individuals, forcing a narrowing of the "touch" between buying and selling prices from which dealers make their living.

A second proposal of the Elwes committee aimed at creating a better stock market for private shareholders could also fail to get off the ground.

This involves the creation of a limit order market, under which anyone who wanted to buy or sell shares would enter the price at which they were prepared to trade on a central system.

These orders would be carried out automatically once there was a matching order at the same price.

Market makers have opposed this proposed system, known as Close. Mr Nigel Elwes, finance director of Warburg Securities and chairman of the special committee, said last week Close would be particularly suitable for small bargains.

If the Close system is built, it will achieve the same goal as the proposed "green strip", he said.

However, while not endorsing the idea, the Exchange's council is expected today to approve a study to find out whether there is sufficient demand to build the system.

Elwes: wants to introduce a new system creating a better stock market for private shareholders

Civil servants urged to accept wage deal worth 8.85%

By Michael Smith, Labour Correspondent

NEGOTIATORS representing 70,000 industrial civil servants are recommending a deal which they say will will lead to the pay bill of the group rising by 8.85 per cent.

The package is among the best achieved in the public sector this year. However the rise is nearly a percentage point below the last reported inflation rate of 9.7 per cent, indicating the Government's determination to set an example to the private sector on holding the line against pay pressures.

The agreement is the first for industrial servants since they agreed a long term pay formula last year with the Treasury. This introduced a form of comparability with the private sector.

Mr Jack Dromey, chief union negotiator and a national secretary of the TGWU general workers' union, said the deal was the best in the civil service this year.

The Treasury, however, said the deal was around 8.7 per cent and 0.4 per cent of this resulted from last year's agreement. The package was comparable in size with that negotiated by the CPSA junior civil servants' union when rises which take effect this year but were negotiated last year are taken into account.

The deal was concluded after a survey of 391 private sector deals found that the middle 50 per cent of deals ranged between 7.45 and 9 per cent. Negotiators were obliged to reach a deal between these two figures under the terms of the long term pay formula.

Another survey compared the pay levels of 94 benchmark jobs in the industrial civil service with those doing similar work in 192 private sector companies. Mr Dromey said this showed that industrial civil servants fall mainly in the lowest 25 per cent of the wages league.

EUROPEAN COMMUNITY

Thatcher repeats opposition to single currency

By John Mason

MRS Margaret Thatcher, the Prime Minister, arrived back in London from last week's Dublin summit underlining her opposition to the Delors proposals for European monetary union by arguing against both a system of fixed exchange rates and a single currency.

In a statement to the Commons at the end of last week following the EC summit, Mrs Thatcher praised the proposals for a common currency based on a hard Ecu advanced by the Mr John Major, the Chancellor, but played down the possibility that they could lead to a single currency.

Thatcher: "I am against a single currency."

The Prime Minister also repeated her opposition to Britain surrendering control of domestic monetary policy, pointedly stating that the Government disagreed with Stage 3 of the Delors proposals and had yet to agree with Stage 2.

She told Mr Peter Shore, the opposition Labour MP and long-standing opponent of the EC: "I am against locked currencies. We have lived with them and they collapsed. I am against a single currency."

Mr Shore had warned that there were great dangers to British industry in the "Gadarene rush" towards economic and monetary union.

Mr Neil Kinnock, the Labour leader, accused the Government of maintaining a "two-faced performance" with the Prime Minister stating a single currency would not be agreed in her lifetime, while others, such as Sir Geoffrey Howe, saw the British proposals for a common currency as being a possible basis for one.

Mrs Thatcher quoted the Chancellor as saying Britain's proposals would allow for the evolution of a common currency, but this would be a matter of choice, not prescription.

Responding to suggestions that the proposals would take Britain along the road to a single currency, she insisted that the European monetary fund proposed by Mr Major was not designed to form the basis of a European central bank administering one currency.

Mrs Thatcher told Mr Paddy Ashdown, the Liberal Democrat leader, that the hard Ecu would only be issued against deposits made with the fund in other currencies.

She insisted the British proposals were "more substantial" than those contained in Stage 2 of Delors, while many countries would have difficulties with the locked currencies proposed by Stage 3 which would require enormous subventions by other member states.

Mrs Thatcher added that agreement on monetary union had to be by unanimous vote among member states and insisted that giving up national sovereignty, as proposed by Delors, would be unacceptable to the Commons.

Howe looks to improve links with Strasbourg

By John Mason and Alison Smith

NATIONAL parliaments and the European Parliament in Strasbourg should be complements and not competitors in enhancing democratic accountability in the European Community, according to Sir Geoffrey Howe, the Leader of the House of Commons.

He told MPs last week he would be looking at giving MEPs wider access to facilities at Westminster to help foster informal links between MPs and their European counterparts.

In the past, MPs have been jealous of their position and it was only very recently that MEPs arriving for meetings with MPs did not have to queue outside with the general public.

He said that the changed procedures being proposed for scrutinising European legislation at Westminster would mean fewer late-night debates, and more consideration of EC legislation in a new type of Commons committee, which would be able to question ministers as well as debate proposals.

The plans were put forward by the Procedure Committee, chaired by Sir Peter Emery, the Conservative MP, and the Government has accepted most of them, with the intention that the new system should start in the next parliamentary session. Mr John Cunningham, the Opposition Labour Party's shadow Leader of the House, agreed the current Commons procedures for scrutinising European legislation were unsatisfactory.

The EC had been given more powers over British affairs but this had not been reflected in greater accountability or scrutiny of its decision-making.

The European Parliament had to be given increased powers, but it should act to complement the national parliaments of member states, not replace them.

He also criticised government ministers for failing to make statements to the Commons after Council of Ministers meetings.

Sir Peter said there was widespread agreement that Westminster was failing to consider European legislation properly.

Too often debates were restricted to an hour and a half, held late at night and attracted MPs more interested in discussing whether Britain should have joined the community in the first place.

General Dynamics in last bid to build army tank

By David White, Defence Correspondent

THE BATTLE over the British Army's next tank will intensify this week when General Dynamics of the US makes its last effort to oust Vickers of the UK from the field.

The US company is expected tomorrow to present its latest proposal to the Ministry of Defence, which is due to make its decision by early December. West Germany's Krauss-Maffei and France's state-owned GIAT-Industries are also competing for the order, estimated to be worth at least £600m.

The US bid is a revised version of an initial proposal submitted in 1988. The British Government decided then to postpone the final choice by giving Vickers an interim contract to complete work on prototypes of its Challenger 2 tank.

Under General Dynamics' proposal, VSEL Consortium, British Aerospace's Royal Ordnance subsidiary, and Smiths Industries would be among UK companies participating in producing a British version of its M1A2 Abrams. In addition, the US company is offering industrial offset work in the UK.

Textron Lycoming, manufacturers of the gas turbine engine used in the US tank, has also been discussing collaboration with British companies.

Further details are being kept secret but General Dynamics said: "We think our package is competitive."

The original UK order of up to 600 tanks foreseen two years ago is expected to be reduced to between 300 and 350 as a result of imminent cuts in armoured units assigned to the British Army of the Rhine. The initial order might be smaller than this.

General Dynamics is relying on exports to maintain tank assembly at the two US Government-owned plants it operates in Michigan and Ohio. This follows a recent Pentagon decision to suspend deliveries to the US Army from 1993.

In addition to the UK contest, it is hoping to export 315 M1A2 tanks to Saudi Arabia. Egypt is also expected to buy 540 of the earlier M1A1 model, mostly assembled locally.

The US tank has strong support within the British Army as the replacement for the notoriously unreliable Chieftain. However, the MoD will have to take into account the logistical costs associated with the high-consumption gas turbine. Textron Lycoming says it has already achieved reductions in consumption and could obtain more.

Another bleak year forecast for DIY

By Maggie Urry

FURTHER consolidation in the do-it-yourself retail sector is predicted in a new report from Verdict Research, the retail research consultancy. It also forecasts another bleak year for the DIY retailers.

The report follows last month's merger between two leading groups: Payless, owned by Boots, and Do It All, part of the W.H. Smith group. Verdict says the combination of these two companies, which were respectively third and fourth in the sector, will have a market share of 7.5 per cent.

This means that the merged group, which will retain the Do It All name but change its image, will be the third largest force in the DIY market. B & Q, a subsidiary of Kingfisher, leads with 13 per cent, followed by Texas, part of Ladbroke, with 8 per cent.

Verdict suggests that Great Mills, which is owned by RMC, the building products group, and lies in sixth place with 2.4 per cent of the market, could merge with B & Q or Texas. The other leading players – Wickes and Homebase, part of J. Sainsbury – were unlikely to join forces with any other group.

Looking beyond 1990, Verdict says the future is brighter but the sector is unlikely to enjoy the very rapid growth seen in the 1980s.

Low prices were the most important factor in determining which shop customers visited.

DIY Retailers, Verdict Research, 112 High Holborn, London WC1V 6JS. £495.

Water suppliers delay investment

By Andrew Hill

THREE WATER suppliers in the Home Counties have been forced to postpone decisions on capital expenditure because of the Government's delay in deciding whether to allow them to merge.

The three statutory companies – Rickmansworth, Colne Valley and Lee Valley – proposed a merger at the end of last July. The companies had originally hoped the deal might be completed by the end of 1989. However, Mr Nicholas Ridley, the Trade and Industry Secretary, is unlikely to publish his decision on the move before the end of this July.

Mr Robert Simpson, managing director of Rickmansworth and Colne Valley, said the deferral of capital expenditure decisions had not affected the quality of service, but added: "It's a period of uncertainty. Uncertainty is never a good thing and the sooner we know where we stand the better."

The proposed merger was the first takeover in the industry automatically referred to the Monopolies and Mergers Commission under the new Water Act. If successful, Compagnie Générale des Eaux, France's largest water supplier, would become a majority shareholder in the merged group. The MMC's report was submitted on February 12, but was not published until April because of the complexity and sensitivity of the issue.

The commission ruled that the benefits of the takeover – lower water charges, for example – did not outweigh the adverse effects, but Mr Ridley asked the director general of water services, the industry's economic regulator, to investigate the possibility of further savings.

Phone cartel looking vulnerable

Hugo Dixon on ways Oftel could end high-priced international calls

Sir Bryan Carsberg: inquiry due to end this summer

THE international telephone cartel is like a piece of fabric fraying slightly at the edges. It may look sound, but if a loose strand is pulled vigorously it may unravel.

The Office of Telecommunications, the UK industry regulator, has launched an inquiry into the pricing of international telephone calls and may well lay its hands on just such a strand.

The telephone companies' defence has been to stress the complexity of the arrangements that govern international traffic and to argue that their hands are tied by decisions taken by foreign companies and their governments.

The cartel's practices are complex. At their heart is the accounting rates system, which determines how the revenue from international calls is split between the cartel's members and penalises any company that cuts its prices.

BT argues that, so long as accounting rates remain high, it cannot cut its prices and *that, unless its counterparts* abroad agree, it cannot cut accounting rates. Thus action within the UK would be pointless, the company argues.

Yet Oftel's director general, Sir Bryan Carsberg, could start pulling on several potentially loose strands.

● BT could be forced to cut prices on routes where accounting rates are already low.

Immediate action could be taken on calls to the Republic of Ireland, where accounting rates are zero. This means that BT does not have to pay anything to Telecom Eireann for delivering calls to their destination.

Even so, a five-minute call from London to Dublin costs £1.92 at peak rate, almost three times as much as the 71p it costs to call Belfast. At cheap rate, the price of £1.27 is five times the Belfast rate of 25p. Prices for calls to the rest of Europe, where accounting rates are about a third of the level they are for intercontinental routes, could also be cut.

● Responsibility for negotiating accounting rates could be transferred from BT to Oftel.

If the watchdog was in charge of negotiating accounting rates BT would no longer be able to use this as an excuse for artificially high prices. As lower accounting rates were negotiated, price reductions could be made automatic.

● BT could be forced to publish details of its revenues and profits from international calls.

If the company had to publish such information, the public would be able to scrutinise whether it was earning excessive profits from international calls and doing enough to bring down its prices.

● Restrictions on international private circuits – in particular a rule preventing companies from reselling spare capacity to third parties – could be abolished.

Legalising "resale" would probably be the quickest way of introducing competition. New companies would not need to waste time building their own networks, but would simply lease bulk capacity from BT or Mercury and resell it to users.

Initially, resale would be possible only on the UK/US route because other countries continue to maintain restrictions similar to Britain's banning this practice. But, if prices fell on the important UK-US route, which is responsible for about 1bn minutes of traffic a year, other countries would face pressure to follow suit.

Because BT and Mercury charge their customers about three times costs for international calls, the opportunities for resellers are considerable.

According to a report published by the London-based International Institute of Communications earlier this month, a reseller would pay BT the equivalent of 5c (3p) a minute for a circuit between the UK and the US, compared with the 99c a minute BT charges its customers for calls to the US.

SCN, a small Connecticut company, is already positioning itself to become a reseller, specialising in services for brokers and bond-dealers in the City of London and Wall Street.

Regulations will initially limit SCN to carrying data traffic, however. "It's like running a taxi service but only being able to take passengers in the front seat," says Mr Greg Ollyk, the company's founder.

● New companies could be licensed to compete with BT and Mercury on international routes.

The current duopoly has not brought prices down because both companies know that a price war is not in their interests. Since Mercury's arrival, BT's international prices have increased by an average of 17 per cent.

Oftel will not form a view on whether new competitors should be licensed as part of its current investigation, which is due to be completed at the end of the summer. But the option will be examined later this year when the Government reviews the duopoly.

Such a package of measures would not lead to the cartel unravelling overnight because of all the complexities that BT and Mercury point out. But it would set prices moving on a downward trend.

The global telecommunications traffic boom, IIC, Tavistock House South, Tavistock Square, London WC1H 9LF. $395.

Advertising faces cash cutbacks

By Alice Rawsthorn

THE advertising industry seems set for a continued squeeze on expenditure this year as many of the largest UK advertisers anticipate further cuts in marketing budgets.

A new study by Media Audits, a consultancy which monitors advertising expenditure, shows that many advertisers have already reduced their expenditure this year and plan further cuts.

One in five of all the advertisers in the survey – which covered 58 companies accounting for 18 per cent of all the money spent on television advertising – are cutting back. The scale of the cuts is surprisingly high. More than half of these companies expect to reduce this year's budgets by more than 50 per cent.

However, Media Audits expects overall advertising expenditure to rise by 5 per cent – just below the rate of inflation – during the year.

The mood of the advertising industry has become increasingly gloomy in recent months as agencies have struggled against budget cuts and rising costs in an increasingly unstable environment. The impact of higher interest rates on consumer spending and corporate profits has forced companies to economise in areas such as advertising.

Given that advertising is a highly leveraged industry – where staff represent a hefty proportion of overheads – many agencies have experienced severe financial problems because of the downturn. Some agencies have already been forced to cut costs by shedding staff and closing poorly-performing subsidiaries.

The weakness of the UK market has contributed to the problems of Saatchi & Saatchi, the international communications company, which is struggling to stabilise its finances. Saatchi owns three of the largest London agencies. Meanwhile some smaller agencies, including Yellowhammer, have fallen into losses.

Heads call for combining of science courses

STUDENTS preparing for GCSE exams should be taught combined sciences rather than the traditional separate sciences, two teachers' unions say, writes Norma Cohen, Education Correspondent. The National Association of Head Teachers and the Secondary Heads Association, say the study of individual sciences will not allow students to meet the targets in the national curriculum. The Skills Assessment and Education Council has proposed that under the national curriculum schools be advised to use a combined sciences approach, but may offer study in specific sciences.

APPOINTMENTS

Restructure at British Telecom

■ Mr Bruce Bond is to become BRITISH TELECOM's group products and services director, and has been appointed to the management board. He joined BT from US West last year, and is currently director of corporate strategy. Mr Bond leaves this post immediately to begin planning the integration of the present product and services groups into a new organisational structure planned to take effect from April next year. He will retain responsibility for a number of marketing issues.

Corporate strategy is being merged with group strategic relations under Mr Richard Marriott who becomes director, corporate strategy.

■ Mr Tim Goode, deputy head, has been promoted to head of treasury sales at MIDLAND MONTAGU, international and investment banking arm of Midland Group. He succeeds Mr Martin Jaskel, who is leaving.

■ Mr J. Burnett-Stuart has become a non-executive director of CALEDONIA INVESTMENTS. He was chairman of Robert Fleming Holdings.

■ ROTHMANS INTERNATIONAL has appointed as non-executive directors the Marquess of Douro, deputy chairman of Guinness Mahon Holdings, and Mr Joseph Kanoui, chairman of Cartier Monde.

■ HAWKER SIDDELEY GROUP has appointed Mr Duncan Lewis, director, strategic planning, as chairman of Hawker Siddeley International and its subsidiaries, and of Crompton Lighting and its subsidiaries. Mr Charles Brooks has been appointed managing director of Hawker Siddeley International, succeeding Mr Guy Checketts who has retired.

■ Mr John Cowell has been appointed managing director of STANLEY GIBBONS AUCTIONS from July 23. He was director, philatelic department, Habsburg, Feldman, fine art auctioneers, Geneva.

■ ADVANCED SCIENTIFIC INSTRUMENTATION has appointed Mr John Roberts, retired chief executive of Dunlop Aerospace Group, as a non-executive director.

■ Mr Stuart H. Peel, general manager (aviation) and aviation underwriter, has been appointed to the board of THE ORION INSURANCE CO, a subsidiary of the National-Nederlanden International Insurance Group.

■ F.T. EVERARD & SONS has appointed Mr J. Urquhart as a director.

■ THE MITSUBISHI BANK, *London branch, has appointed* Mr Stephen Lyons as senior manager, aerospace finance, covering Europe, Middle East and Africa.

Changes at Macfarlane

■ Mr William Mackie is to become group managing director of MACFARLANE GROUP CLANSMAN, Glasgow, from January 1, succeeding Sir Norman Macfarlane who will remain chairman. Mr Mackie is chief executive of the packaging division, and managing director of A. & W. Fullarton, Glasgow. Mr Gordon Lane, managing director of Abbotts Packaging, London, will become chief executive of the packaging division, and Mr Donald MacLeod, sales director at Fullarton, is promoted to managing director. Mr Robert Martin, managing director of ACW, Aberdeen, has joined the group board, and on January 1 will succeedMr Charles Cruickshank as chief executive of the plastic moulding division. Mr Cruickshank will remain chairman of Daniel Montgomery & Son, and will continue as group deputy chairman.

Hurd, Major argue for Euro-unity approach

By Philip Stephens, Political Editor

MR DOUGLAS HURD, the Foreign Secretary, and Mr John Major, the Chancellor, have launched a joint initiative to promote the Government's approach towards European integration as being firmly in the centre ground of British politics.

The initiative comes amid growing concern among Conservatives at Westminster that the European issue risks splitting the party in the run-up to the next general election.

Party leaders fear that the pressures from Britain's European partners for economic and monetary union and for significant steps towards political union could provoke bitter infighting between Tory "federalists" and those determined to defend British "sovereignty."

In a speech at the weekend Mr Hurd castigated both groups as "the regiments of absolutists." The former believed that everything should be "harmonised, centralised and federalised," while the latter treated "the symbols of sovereignty as more important than the reality."

Mr Hurd, who had co-ordinated his remarks in advance with Mr Major, insisted that the "huge majority" of Conservatives could find a common terrain on which to pitch the party's European policy.

That meant advocating not a "stick-in-the-mud Community" but rather one "steadily working to intensify co-operation on issues where common action will help our citizens." He included in that strategy what he termed the Chancellor's practical way forward to EMU, and the series of measures that the Government has proposed to strengthen political co-operation among the 12.

The Foreign Secretary repeated the Government's opposition to the rapid move towards a single currency and central bank proposed in the Community's Delors report. But, in tones distinctly more positive than those employed by Mrs Margaret Thatcher, he insisted that the British plan "does not rule out a single currency in the longer term."

That sentiment – apparently at odds with the Prime Minister's insistence that there is no prospect of abolishing national currencies in the next 15 or 20 years, may be repeated by Mr Major on Friday.

The Chancellor is expected to use a speech in Wales to reinforce Mr Hurd's message that his plan for a European Monetary Fund and for a common currency based on a "hard" European Currency Unit was not a "delaying or diversionary tactic."

Colleagues of the two senior ministers say that their approach will be to stress the positive nature of Britain's stance. The colleagues acknowledge that there has been some friction between them and the Prime Minister. But they insist that while Mr Major and Mr Hurd are keen to dispel scepticism about the Government's intentions, there is no question of an "ultimatum" to Mrs Thatcher.

FT-SE 100 under fire following charges of market manipulation

By Richard Waters and Deborah Hargreaves

THERE WERE calls yesterday for a change in the way the benchmark stock market index, the FT-SE 100, is calculated following the allegations of market manipulation during a chaotic stock market session on Friday.

The upheaval occurred on Friday morning at the time the FT-SE 100 was being set. The calculation was being carried out to provide a value for FT-SE futures and options contracts which expired on Friday.

This FT-SE level is used to work out whether traders in the futures market have loss-making or winning positions before the contracts cease to exist. The index is therefore important to traders, many of whom also act as equity market makers and so are in a position to influence the index by altering their prices.

Pressure is now mounting for the method of setting the FT-SE to be changed, basing it on the price at which deals are actually carried out, rather than on the prices quoted by market makers. This would prevent market makers from altering their prices temporarily to influence the FT-SE without actually dealing at the new prices – something they could do at the moment by simply refusing to answer their telephones.

For half an hour on Friday morning many of the stocks in the FT-SE 100 index were being bid for at levels above the selling prices some market makers were quoting on the exchange's price quotation system. This so-called "backwardation" is the reverse of the usual market situation, under which market makers are not prepared to buy shares for more than they could resell them.

It led to numerous complaints to the Stock Exchange from traders that market makers were not answering their telephones when they tried to deal at the quoted prices.

Criticism was levelled at Goldman Sachs, which was bidding up prices aggressively as the FT-SE was calculated between 11.10 and 11.20. Barclays de Zoete Wedd, which took the opposite tack, was also criticised. Both firms denied the charges against their market makers.

The houses have won at least some support in the City. "They were making real prices," said a rival house, which said it was aware of a number of institutions that had been able to deal at the quoted prices.

The Stock Exchange is holding an investigation into the highly unusual situation and expects to interview traders early this week.

It will also examine details of the quotes put out by market makers on Friday morning and compare these with the prices at which deals were actually carried out.

Museum has designs on growing audience

Alice Rawsthorn on Terence Conran's creation

IT IS a year since the Design Museum opened to the public as the first museum in the world devoted entirely to industrial design.

The first year has been eventful. The museum lost its chief executive after less than two months amid a blaze of rumours about mutinous staff and feuding trustees. A few months later it lost its director.

The first few exhibitions were slammed by the art critics who seemed rather sniffy about an institution calling itself a museum when it was filled with cameras and cars. Then there was a furore when the graphic design section, sponsored by Perrier, showed an exhibition of Perrier advertising.

After all the fuss, the museum is surprisingly serene and quietly successful. Ms Helen Rees, who was curator at the time of the opening and became director last autumn, is a far less flamboyant figure than Mr Stephen Bayley, the original chief executive. The mood of the museum reflects her influence.

The attendance figures are healthily ahead of expectations. At a time when corporate profits are under pressure and many institutions are struggling to find finance, the Design Museum's funding is secure for the next two years.

The museum is the creation of the Conran Foundation, a charitable trust founded by Sir Terence Conran, who wanted to raise public awareness of industrial design. Mr Conran recently resigned as chairman of the Storehouse retail group.

It was intended to be an accessible place for people who were not necessarily interested in design. The centre of the museum is the permanent collection of 400 mass-manufactured objects, containing everything from furniture to a food processor, from all over the world. There is the section featuring products which have not yet come on to the market. Then there are temporary exhibitions which, in the first year, included French design and sport.

Originally the museum aimed to attract 150,000 people in its first year and to increase attendance steadily to 500,000 by its fifth year. By the end of the first year it is just ahead of target with 155,000 paying visitors, 2,000 members and 15,000 school children and students.

The response from schools and colleges has been overwhelming.

The museum has been bombarded with visits from every part of the educational spectrum, from primary school children, who like to play with the exhibits, to GCSE and art school students. At one stage the staff could not cope and it was forced to call a temporary halt to school visits.

Ms Rees says the only disappointment is that so many of the paying visitors, about half, are associated with design or advertising. She is determined that the museum should be "a populist place, not somewhere for the *cognoscenti*."

Healthy attendance has helped to secure more money. The Conran Foundation provided £7m to pay for the building, a converted 1950s warehouse by Tower Bridge on the south bank of the Thames, in London. It also gave a £150,000 covenant to the museum covering its first five years.

The museum has to find the rest of its money elsewhere. The running costs in the first year were £1.8m, which was just over budget, said Ms Rees, "but not so far that anyone who knew anything about money held up their hands in horror." It receives £500,000 a year from corporate sponsors, such as Courtaulds, Unilever and British Telecom, and £500,000 from tickets, catalogues and bar receipts.

At the time of the opening, the museum had raised enough money to cover the next 18 months. It is now covered for the next two years. Fiat recently committed £100,000-a-year for five years. However, funding may be harder to find in the future given the uncertain outlook for the economy.

The only cloud over the museum is the response from the critics. As Ms Rees said, part of the problem is that exhibition reviews tend to be written by art critics who are well versed in paintings and sculpture, but not necessarily in design.

She is anxious to avoid a repetition of the controversy over the Perrier exhibition. In future exhibitions will not to be linked to individual companies. One exception will be a long-planned show next year on the designers and craftsmen who worked with Alfa Romeo.

At the start of its second year the museum is sufficiently confident to stage more ambitious shows and events. "We have a clearer idea of what we can do and how far we can go," said Ms Rees.

The next exhibition, Graphic Design in America, which opens early next month, will be its biggest show yet.

Helen Rees: determined the Design Museum should be populist and have clear ideas for the future

Gould says Tories are confused over poll tax

By Ralph Atkins

MR CHRIS PATTEN, the Environment Secretary, will meet local authority representatives from all parties later this week as the Cabinet committee review of the community charge continues.

Labour yesterday taunted the Government by publishing what it said was a "catalogue of confusion" among Conservatives backbenchers and ministers over reforms to the poll tax system.

Mr Bryan Gould, shadow Environment Secretary, said: "Every Conservative seems to have their own pet idea on how to reform the poll tax. Most are contradictory – and hardly any seem in line with what the Prime Minister wants."

At the Consultative Committee on Local Government Finance on Thursday, Mr Patten will chair discussions between local authority representatives and government departments. The yearly meeting proceeds the announcement of Revenue Support Grant figures for the following financial year.

It comes as a committee of Cabinet ministers seeks modifications to the community charge which will restrict increases in bills next year. The Government is anxious that extra resources given to councils should not be allowed to feed through into excessive spending.

Although new legislation to increase its charge-capping powers has been ruled out, Mr Michael Portillo, Local Government Minister, indicated on Friday that the Government might take a harder line next year in capping high-spending local authorities.

Tory local councillors are believed to have told ministers that, to avoid substantial increases in poll tax bills from the average of £363 this year, a further £4bn would be needed in Treasury grant.

Labour is expected to outline its proposals for replacing the community charge once the Cabinet review is completed. At present the party is considering a number of alternative schemes for a tax based on the value of properties and related to people's ability to pay. Party officials yesterday denied there was internal confusion about its plans. They said various options were being refined.

Couriers fail to deliver a good service

By Paul Abrahams

THE ANNUAL survey of the UK's express parcel couriers by Commercial Motor magazine showed that they offered the worst service for seven years.

Two companies were late. One charged high prices and another damaged the goods. Two did not answer the phone.

The companies were asked to take a parcel from Ashburton in Devon to Mallaig in the Scotland in two days.

Of the 15 companies contacted, five – including DHL, one of the largest couriers – refused the commission. They said they could not meet the deadline. One company, Ace for Pace, wanted a fee of £310 for the job.

Those which accepted the commission were not very successful. TNT failed to collect the package. Federal Express' parcel arrived four days late, in spite of carrying a sticker proclaiming "two-day delivery guaranteed." When the parcel arrived it had a hole in it. Parceline's package was even later. The survey concluded City Link, Interlink and Datapost provided the best service.

On a route between Winchester, Hampshire and Valencia in Spain, the couriers proved more effective, although one thought Valencia was in Italy. Prices ranged from £170 to £19. DHL, which charged £31 and took 26 hours, was judged the most effective.

Power generators are switching to oil use

By David Thomas and Steven Butler

A SHARP rise in heavy fuel oil consumption in the last two months – to levels not seen since the coal miners' strike six years ago – is one of the first signs that competition is taking hold in the UK electricity industry.

National Power and PowerGen, the two generating companies heading for privatisation, have substantially increased their use of oil for electricity generation in recent months as prices for high sulphur heavy fuel oil have fallen steeply.

PowerGen is understood to have been the first of the two generators to have increased its oil burning substantially. National Power felt obliged to follow suit as soon as it realised what its new competitor was doing.

Suppliers to the industry say the interfuel market has now become highly competitive, with the generators making keen fuel purchase decisions on the basis of weekly bids put in by suppliers. They say the former Central Electricity Generating Board was relatively insensitive to interfuel price movements and relied more heavily on supplies from British Coal.

Use of oil for generating electricity throughout the UK jumped by 75 per cent to 4.6m tonnes of coal equivalent in the first four months of this year, according to latest figures from the Department of Energy. However, industry specialists say that oil consumption may have risen again in the past two months by another 500,000 tonnes a month of coal equivalent, or by roughly 250,000 tonnes of oil a month. This is the period which has seen the steepest price falls.

Current oil consumption represents only about a quarter of the oil burning capacity of the industry, and could fall rapidly if fuel oil prices rise substantially. Initial forays into the market by the power companies were said to have driven up prices sharply. The companies have since learned how to buy in supplies without unduly influencing the market.

Ironically, neither of the two generators is likely to be able to continue maximum oil burning throughout the summer, even if oil prices stay low. This is because they are obliged to take 70m tonnes of coal from British Coal this year under the three-year coal contract signed as part of the preparations for electricity privatisation.

The generators' commitment under the coal contract means that they might have to increase coal stocks beyond optimum levels if they continued burning oil. "If we dig ourselves too deeply into the oil spot market, we will just build up coal stocks," one generator said.

PowerGen is understood to be using almost as much oil as it can.

NEWS IN BRIEF

British Steel directors' pay rises by 78%

SIR Robert Scholey, chairman of British Steel, received a 79 per cent pay increase to £308,751 in 1989-90, the company's first full financial year in the private sector, according to its annual report.

Other directors, including part-time non-executive directors, received similar percentage increases. British Steel spent £1.74m on directors' pay last year, a 78 per cent increase on the previous year. Mr Martin Llowarch, chief executive, saw his salary rise from just over £130,000 to between £240,000 and £245,000 in 1989-90.

British Steel's pre-tax profits rose by 24 per cent to £733m. The company said the salary increases reflected the its policy of bringing the pay of senior executives into line with the private sector.

Privacy within limits

CONTROLS on the press should be aimed at protecting the privacy of private persons – not politicians or others in public life, Mr Roy Hattersley, Labour's deputy leader, said yesterday.

In a speech following in the wake of Calcutt report on the press, Mr Hattersley also said the media empire of Mr Rupert Murdoch should be split up, saying "It is intolerable for one man to print a third of all the newspapers which are printed."

USM appeal wanes

THE entrepreneurs of the early 1990s prefer to sell their companies or to apply for a *full Stock* Exchange listing rather than to go public on the Unlisted Securities Market (USM), the traditional forum for small companies, according to a survey of entrepreneurs by Baker Tilly, the accountants, and The USM Magazine.

It found that only one in eight were considering flotation on the USM.

BBC to sue BSB

THE BBC plans to sue British Satellite Broadcasting over what it regards as the satellite channel's unauthorised use of World Cup television pictures.

The decision follows the Corporation's failure to get an injunction on Friday to stop BSB (a company in which Pearson, publisher of the Financial Times, has a significant stake) transmitting pictures of the Ireland-Italy and England-Cameroon matches.

Lazard leads as adviser on bids worth £3.2bn

By Nikki Tait

LAZARD BROTHERS has cemented its position as the most active leading adviser on takeover bids for UK companies during 1990, while S.G. Warburg was the leader on bids for companies both in the UK and other countries.

The level of corporate activity fell sharply in the first half of the year, according to the latest rankings published by FT Mergers & Acquisitions International, reflecting the sluggish stock market and uncertain economic climate.

Lazard acted on 26 transactions with a value of £3.2bn in the six months to the end of June. This easily surpassed J Henry Schroder Wagg, which handled 28 deals worth £2.6bn in aggregate, and Warburg, with 14 transactions valued at £2.3bn. Baring Brothers was in fourth place with 13 deals worth £2.3bn.

The rankings altered relatively little from the first quarter of the year: when Lazard also led the list and Schroder, Warburg, and Baring jostled for the next three slots. In terms of bids for publicly quoted companies only (see table) the rankings of the four leaders also remain unchanged.

However, the picture does change once bids for UK companies are combined with bids by British companies abroad. Warburg then takes up the running, having advised on 17 deals worth £4bn. This total outstripped that of its nearest rival, Schroder, which handled 43 transactions, worth only £3.4bn.

The figures demonstrate clearly the recent slowdown in bid activity among publicly-quoted companies.

Lazard gained its top-ranking position in the table for deals involving UK quoted companies by advising on *transactions with an aggregate* value of £1.5bn.

This is less than a quarter of the £6.1bn boasted by Schroder when it led at the same stage last year.

A variety of factors have been blamed for the slump in bid activity, including the high cost of borrowing, the reluctance of banks to back highly leveraged transactions and the volatile equity market.

FT M&A League Table
First half 1990*

Adviser (1989 position)	Value of bids £m	Number
1. Lazard Brothers (2)	1472	13
2. Schroder Wagg (8)	1254	8
3. S.G. Warburg (1)	999	6
4. Baring Brothers (18)	926	4
5. N.M.Rothschild (11)	816	3
6. Hambro Mahan (-)	665	2
7. Hambros (5)	601	4
8. Barclays de Zoete Wedd (17)	447	10
9. Samuel Montagu (14)	442	9
10. Hill Samuel (-)	376	4

*Completed bids for UK publicly quoted companies Jan 1-June 30. (Financial advisers named as such in bid documentation).

BR likely to show sharp drop in operating profits

By Richard Tomkins, Transport Correspondent

BRITISH RAIL is expected this week to disclose a sharp downturn in operating profits after four buoyant years. It is about to announce its results for the year to March 1990.

The figures will have been hit by the economic downturn which has cut consumer spending on leisure travel and flattened the sharply rising trend in commuter journeys.

The results will also have suffered from the series of eight one-day strikes by the rail unions last summer which are estimated to have cost BR about £80m in revenue.

In the four years to 1989 BR achieved a significant turnround in its financial performance. It turned an operating loss of £231.6m for the year to March 1985 into an operating surplus of £107m for the year to March 1989.

The 1989 profit, however, seems likely to have been badly hit, if not completely wiped out, by the combined effects of the strike and adverse economic factors.

BR may still show an overall surplus for the year because of the profits it makes on property sales. These helped take the overall 1989 figure up to £304m from £291m the year before.

But the downturn in its operating performance will inhibit plans to eliminate Government subsidies to Network South-East, believed to have been one of the worst hit sectors, after the end of the year to March 1992.

At present Network South-East is one of only two business sectors within BR still receiving a Government subsidy. It received £141m in the year to 1989, while the Provincial sector received £408m.

Farming industry subdued by falling sales

By David Richardson

THE MOOD in the farming industry is subdued as it gathers today for the opening of the Royal Agricultural Show at Stoneleigh, in Warwickshire, against a background of falling farm machinery sales and depressed demand.

Several sizeable companies have withdrawn from the show since last year. In all, 27 exhibitors, mainly from the traditional agricultural market, have decided not to participate.

However, almost 120 small, specialist companies have come to the show for the first time. These new exhibitors are concentrated in the "esoteric" section of the showground devoted to specialised farming. They are involved with the new enterprises, such as wild boar, llamas, snails and crayfish, which are becoming increasingly popular.

While these areas are expanding, the mainstream market continues to suffer. Tractor sales, usually regarded as a reliable barometer of the health of the industry, fell by almost 3 per cent in the first six months of this year. However, the market varied from region to region. Tractor sales rose by 23 per cent in the east of England, but fell by 20 per cent in the west.

A new study, sponsored by ICI in the UK, suggests that the European Community's cereal production will be significantly lower than expected this year at about 162.5m tonnes.

The study has been released to coincide with today's official opening of the Royal Show by Sir Robin Leigh-Pemberton, governor of the Bank of England.

The study, conducted by the Centre for European Agricultural Studies at Wye College and Institut de Gestion Internationale Agro-Alimentaire in Paris, also reveals that UK farmers are still at a disadvantage compared with their West German counterparts. This is in spite of the recent devaluation of the Green Pound which will raise UK farm prices.

The main reason for the discrepancy is the different rate of inflation in the two countries.

West German inflation is currently running at 2.6 per cent and overall returns to farmers are expected to rise by 6.4 per cent. Returns are profits after inflation is accounted for. By contrast inflation in the UK is at 9.5 per cent against an expected rise in farmers' returns of only 5.9 per cent.

The study also suggests that the permanent loss of land to roads, building and amenities in West Germany, France, Italy and the UK, exceeds the area taken out of production by the European Commission's set aside programme by a factor of four. The report says the programme has taken 442 hectares out of production for five years whereas permanent land loss in the four countries surveyed is 1,766 hectares over the same period.

The future for Carl Zeiss Jena

Reuniting a corporate symbol of German division

David Goodhart assesses the likely steps by which the two rivals will be brought together as one optics and precision equipment products group

A Spacemaster planetarium (left) built for the Belgian town of Genk, and lenses being prepared for Zeiss binoculars

Carl Zeiss Jena - those three words, a world-wide mark of quality in optics and precision instruments, represent one of East Germany's few real corporate assets. And, as for so much else of value in East Germany, today's economic union presents both the threat of annexation and the hope of the future.

The Carl Zeiss optics company, founded in Jena in 1846, and split into a West German and East German half after 1945, has long been *the* corporate symbol of German division. It now stands for the mixed feelings of reunion, particularly on the East German side.

The West German Carl Zeiss, planted in Oberkochen by the Americans in 1945, produces very much the same things as its East German "parent": binoculars, telescopes, microscopes. The western Zeiss, combined with the Schott Glasswerke Mainz, has sales of about DM4.4bn and employs 32,000 people.

It is more efficient and more specialised than its eastern brother-cum-rival and is way *ahead in integrating optics and* electronics. But the eastern Carl Zeiss Jena, which also includes its own glass producer, is no slouch. It has an unchallenged monopoly for its products in the East Bloc but has also competed effectively in the West, against Carl Zeiss Oberkochen among others.

As a flag-ship Kombinat (conglomerate) it has expanded to include several peripheral sectors, such as defence electronics and micro-electronic research, and its 60,000 workers produced sales of 5.2bn East Marks last year, 65 per cent from export.

But now its days as a Communist flagship are over and, as Edgar Riedel, finance director, explains, it must return to its core in optical products. It must also come to terms with a *subordinate role to Carl Zeiss* Oberkochen in a re-united Zeiss, something which even those Jena managers who are genuinely happy about national re-unification will find hard to swallow.

Before the corporate reunification Carl Zeiss Jena hopes to make some headway in catching up with Carl Zeiss Oberkochen. Its strategy - worked out with the help of Arthur Andersen, Boston Consulting, Salomon Brothers and Dresdner Bank - is to sell or close down the camera making subsidiary Pentacon, the micro-electronics research centre in Dresden (where the East German I mega-bit chip was developed) and the Hochvakuum group also in Dresden.

Also for sale is the defence electronics business in Gera, which is part of the core Carl Zeiss Jena business. Zeiss Jena moved into defence electronics at the request of the East German Government and in 1981 completed work on the Keplerstrasse plant which last year still employed 3,000 people producing sales of about 350m East Marks - mainly missile guidance systems.

Thanks to the end of the cold war Keplerstrasse suddenly finds itself in a fix. Defence contracts from Warsaw Pact *countries have been cancelled* and although the company is desperately trying to convert to civilian production (it should generate sales of 30m East Marks this year from medical technology) overall sales will fall below 300m East Marks this year and virtually dry up next year.

The plant is well-organised and equipped with plenty of high quality machinery, much bought from the West (even from Carl Zeiss Oberkochen).

Keplerstrasse also has a brand new sister plant the other side of town in Gera-Bieblach. Pressure of demand in the mid-1980s prompted the decision to expand, but the Bieblach site which now stands empty.

Salomon Brothers is doing its best to sell the two plants - together or separately - and has already contacted about 20 West German companies and 50 companies from other western countries.

Dieter Neuhold, head of the Gera defence electronics company, talks excitedly about raising sales in medical technology to 100m East Marks a year but adds that if no partner or acquiror is found within six months things will start to *look bleak.*

The biggest problem in selling Gera is that it brings with it debts of about DM250m, roughly one-third of the whole Zeiss Jena debt. Neuhold admits: "Nobody will be interested in us unless we can deal with the debt problem." However it now seems the government will take over a large part of of Gera's and other East German defence companies' debt.

Gera still has a second problem. Government officials in Bonn say that the Soviet Union has expressed an interest in repatriating some of Zeiss Jena's most sophisticated technology, especially in defence. There is a clear logic from the Soviet point of view: their orders have kept large parts of Zeiss Jena ticking over, and they do not want to lose out technologically from German re-unification.

Neuhold says that Rainer Eppelmann, the East German Defence Minister, has discovered no such interest on the Soviet side.He also insists that there is nothing specially sophisticated about the Gera missile guidance products which are in any case made under licence from Soviet *designs. Above all he wants to* dispel the notion that East Germany and the Soviet Union had a completely non-commercial relationship: "We used to argue over every contract," he insists.

But even if Zeiss Jena can sell Gera it is still not clear whether the proceeds would stay in Jena or return to the Treuhandanstalt, the trust body in East Berlin which owns all of East German industry and desperately needs cash to help out companies with pressing liquidity problems.

The Zeiss Jena managers are confident that the trust will be satisfied with the proceeds from the sale of their other subsidiaries and that the Gera cash can be kept to pay for the new investment.

Riedel, the finance director, *admits that average productivity* is perhaps half that of the West and that 20 to 30 per cent of workers will have to go even in the core Jena business, which dominates the small Thuringian town. The home market will shrink rapidly but Zeiss Jena hopes to hold on to some of its "classical" optics market.

Fat profit margins, commonplace in the export business, they will soon disappear as will the Government money to support the export of cameras.

On the positive side the company's 8,000 scientists can now develop projects with colleagues in the West and will not have their production priorities determined by the East Bloc.

Riedel expects losses for at least a couple of years and *sales of about DM2.5bn next* year.

Nobody doubts that within four years its products will be integrated with Zeiss Oberkochen with ownership in the hands of one Zeiss Foundation, as a recent agreement between the two companies laid down. But the industrial, legal and emotional problems associated with the merger are almost as complex as German unification itself.

Ever since the Zeiss's divided there has been furious dispute about two things: which Zeiss is the rightful representative of the original Foundation which owned the company, and who has the right to use the trade-mark.

The latter dispute was partly solved by the "London Agreement" in 1971 in which the *world* was divided up into those countries where Zeiss Oberkochen had exclusive rights (US, France, Scandinavia), those where Zeiss Jena had exclusive rights (most of the East Bloc), and those where competitive co-existence was allowed (UK, Spain).

The German market was, of course, strictly divided. But what happens in a united German market? *Judging by the* rather merciless tone of Zeiss Oberkochen it may well try to invade the East German market while arguing that reciprocal action is not allowed.

Zeiss Oberkochen will certainly take a hard line on the Foundation. It says that after Zeiss Jena became the property of the people in 1948 the original Foundation ceased to exist and its role was taken by the new one established in Heidenheim, West Germany. The West German courts have supported this position, so when West German *law* applies in East Germany too, after full reunification, the Jena Foundation will have no legal basis.

The East Berlin trust body has now granted Zeiss Jena the right to be owned by its own foundation, which has continued to have a shadowy existence looking after company property (although Zeiss will still qualify for its three-month liquidity cash from the trust).

A merger of the two Foundations would be the most dignified option for the Zeiss Jena management and might help more of them save their jobs. But this one-time East Bloc "centre of excellence" will probably have to accept a takeover. As Thomas Zecher of Zeiss Oberkochen bluntly expressed it: "They don't really have any cards to play."

The quest for a consensus on value

How much are East German firms worth? The trust body which owns East German (GDR) industry says the collective corporate worth of the country (according to West German accounting methods) is about DM600bn. Using GDR accounting methods and East Marks the figure is about 1,800bn.

But many of the accounting firms currently struggling to convert GDR balance sheets into West German form (and currency) are coming up with a real, i.e. West German, valuation of rather less than one third of the GDR figure.

Most accountants (predominantly from the West as the GDR has only a few dozen) are first of all drawing up new balance sheets using West German standards but leaving valuations in East Marks.

The main conversion problems are uncertainty over the value of fixed assets, such as property, and the straightforward over-valuation of GDR assets. The GDR did not have a proper system of depreciation, let alone accelerated depreciation, and thus buildings and machines sit on the books many times above real worth.

The average machine is worth less than half its stated value and some, particularly computers, have no market value at all. In addition the exceptional over-valuation of machines that were bought using hard currency has to be eliminated. Current assets also must be devalued.

With liabilities the main problem is calculating the commitments that pension reserves have to carry and deciding which debts have to be repaid and which can be forgotten.

If after this revaluation there is still a positive value it then has to be converted into D-Marks. The conversion rate for most debt is fixed at 2 to 1 but for everything else it remains uncertain.

To coincide with the conversion of the GDR's 8,000 companies into public limited and limited form (AGs and GMBHs) all of them have to present "opening balances" in D-Marks by the end of October. These balances must then be checked by independent auditors (and by the trust body) and passed by December.

Enormous uncertainty still surrounds the balance sheet conversion. Carl Zeiss Jena, which has Peat Marwick working on a valuation of the Gera-based defence electronics subsidiary it is hoping to sell, does not yet know whether it will be able to write-off the DM250m of debt that the subsidiary is carrying. And one West German consultant says that a GDR company he is helping has had two valuations, one of minus DM50m and another of plus DM250m.

But reasonably trustworthy valuations remain vital for several reasons. Banks are unlikely to lend if they have no idea of what, if any, security they are lending against. Companies wishing to sell equity stakes to western companies need an idea of their value as, of course, do the potential acquirors.

Valuations should also put a value on subsidiaries - such as the Gera defence electronics unit - making them easier to sell.[not quite sure this is what meant to say] It may even help to resolve some of the complex pricing arguments over the small and medium-sized firms which were forcefully merged with larger groups in 1972 and are now being re-claimed by their former owners; although the main problem there is estimating how much value has been added or taken away since 1972.

Finally, if GDR companies do try to float themselves, future shareholders will need some financial information on which to make a judgement. Flotation, however, raises a further problem: if the normal western practice of requiring three years' worth of financial information is copied, which western financial institutions will be brave enough to verify such information?

Guillaume Tell

COVENT GARDEN

In this remarkable Covent Garden season, four of opera's most substantial "special cases" have been given new productions – *Médée, Idomeneo, Prince Igor,* and now *Guillaume Tell,* revived for the first time since 1889.

These very different works share problems of length, performance style, and above all vision – in each case a vision of grandeur out of tune with the breathless spirit of our own age – that make them unusually arduous and risky to mount. (The more so if their musical texts are presented, as they have been, at decent length rather than being chopped.)

It is a brave company which chooses to face such challenges; and while the actual success rate in mastering them has varied wildly, the valour of the Royal Opera in taking them on at all rather than sticking to sure-fire favourites – which would certainly be more prudent in view of current budgetary agonies – deserves praise. On my seasonal score-card the new *Tell,* conducted by Michel Plasson, produced by John Cox in the designs of Robin Wagner (sets) and Liz da Costa (costumes), is placed well above the Mozart and Cherubini performances, below the Borodin: an honourable attempt to re-create one of the first, and greatest, of the 19th-century French Grand Operas using imperfect materials.

This was Rossini's final opera; it fixed the form which Meyerbeer and then (more worthily) Donizetti, Verdi and Berlioz were to develop. More important, though, than its historical position or culminating place in Rossini's work for the theatre (summed up by Ronald Crichton's richly illuminating *Tell* article in the June *Opera*) is the grandeur of spirit, sound, and dramatic purpose that irradiates its vast edifice. The final pages, with man and nature now Romantically united as orchestral and then human voices slowly transform a Swiss Alphorn cow-call into a paean to freedom, count among the most sublime in the medium; they are the fulfilment of the very first scene, with the fisherman singing of careless pleasures while (as Tell comments) "Switzerland weeps for its lost liberty".

In this and countless other ways the opera shows itself a mighty span of linked themes: it belongs among the noblest of "political" operas, a vision of a society throwing off its shackles that must deliver a perpetual rebuke to those reproducers of the "lazy Rossini" legend. It is not a flawless masterpiece. The libretto's stiff diction is often noted, though its skill in building up large-scale contrasts is too little acknowledged. There are moments (notably the pre-apple-shoot episodes of Act 3) when Rossini's handling of forces seems formulaic (though never musically short-winded *à la* Meyerbeer).

But the greatest problem is the pace of unfolding. Audiences now find Grand Opera leisureliness hard to take. The type of dance *divertissement* (bravely given at length and tactfully choreographed by Kate Flatt) included in the opera's "public" scenes is felt to be frivolous. The canvas of Act 1 – a pastoral idyll coming under the shadow of tyranny – displays all of the composer's scene-painting gifts; it unrolls slowly. The very expansiveness of some of the solos places the characters at a remove; in any case those characters are largely stereotypes.

Given the "relevance" of the subject, a *Tell* producer could be expected to follow the fashionable line of updating – setting it in, say, Lithuania or the Transkei, or some part of occupied Europe during the last war. Mr Cox has explored what I believe to be the more difficult route with the opera. He keeps it in period, complete with local-colour incidents and traditional handling of chorus. The horribly brutal close to Act 1 brings a modernising gloss, so also Tell's transformation into a political leader with a touch of the fanatic; but overall the work is offered "as is".

As such its outlines are dignified and honest, most effective in the the opera's later stages (the finale, with its tender female groupings, will go even better without the gremlins that marred opening night). Unfortunately, Cox's serious-minded conservatism is undermined by deadeningly unatmospheric sets (from the designer of *A Chorus Line!*) and costumes. The opera's great moments have a cut-price look about them: there is a touch of Ruritanian operetta to the "love interest".

Alastair Muir

Chris Merritt and Lella Cuberli

I also feel, no doubt unfairly (given the difficulties of casting French Grand Opera at all), that the work is undersung. The vocal writing, combining Rossini's Italian and French modes, demands a blend of noble timbre, wide range, flexibility, and Gluckian simplicity of utterance. Only the Mathilde of Lella Cuberli came within reach of the style – and on Friday, though wonderfully delicate in inflexion, she seemed unable to sing out, powerfully, where needed.

As Tell the Australian Gregory Yurisich is an excellent actor, a trenchant stage personality, and an astute singer with a voice, a rough-edged bass-baritone, that lacks *cantabile* beauty. Chris Merritt, in the killer role of Arnold, is at once a high-tenor phenomenon and a monochrome, sometimes lax musician and artist (in no way, though, did he deserve those hideous curtain-call boos). Among the smaller roles, some dully taken, at least Linda Kitchen (Jemmy), Eva Podles (a lovely Hedwige), Stafford Dean (Gessler), Ian Caley (Rudolph), and Justin Lavender (Fisherman) make their mark. The general level of French delivery is higher than the house norm; only Robert Lloyd's Walter moulds the language expressively.

What the opera needs most of all is a conductor who is the work's champion – a Colin Davis in unquenchable *Trojans* vein. On Friday Plasson, a notably sympathetic, sensitive musician, handled it all far too smoothly (and in the airs far too lingeringly). The orchestral playing had loose ends. There was a want of ruggedness, stringency, dramatic fire, heroic scale. Recitatives lacked forward movement. The finale failed to ignite.

In sum, then, this is neither the triumphant vindication all *Tell*-lovers were hoping for, nor by any means an abject failure.

Max Loppert

Early music on the West Coast

America's two centres of early music are Boston and what is called the Bay Area – the cluster of towns around San Francisco Bay. In both of them there are many universities and conservatories, providing the performers, the scholars, the scholar-performers, the instrument-makers, and the concerned audiences for early music. When, ten years ago, I was Bloch Professor on the Berkeley campus of the University of California, lecturing on Verdi, I lived in a house that held a fine Flemish harpsichord, a Streicher fortepiano, a spinet and two clavichords; and I played not only those instruments but also a part in founding the Baroque Philharmonia, the only American Baroque band that has had something like a regular existence. Its prowess can be heard on several Harmonia Mundi CDs.

In 1981, Boston inaugurated its biennial Early Music Festival, which continued in 1983, 1985, 1987 and 1989. This year, Berkeley, across the bay from San Francisco, began its even-year biennial festival, which will enable American early-music enthusiasts to have an annual fix.

The pattern was close to Boston's: a few big events, recitals galore, master classes, symposiums, and a trade fair at which publishers, instrument-makers, computer-programmers and record companies displayed their early-music wares.

I missed the first big event – Monteverdi's 1610 Mass in the afternoon and 1610 Vespers in the evening – but heard the others. A performance of Jommelli's opera *La schiava liberata,* conducted by Alan Curtis, provided the sort of ecstasy that 18th-century critics write about: rapture in the way that fresh, unforced voices can move with skill and imagination through their phrases, bringing the words to life. There were five stars: Silvana Manga, Gloria Banditelli, Guillemette Laurens and Jeffrey Gall, whose names are well known to readers of these columns, and the soprano Reveka Mavrovitis, who has a Pirandello-princess presence and pure, lustrous timbre. The other were good too. Gian Paolo Fagotto, in a Pedrillo role, had considerable charm.

La schiava liberata, like Mozart's *Die Entführung,* tells of the rescue of an aristocratic western lady from a Turkish harem – but without Mozart's moral questioning. The jokes are simple: two men get into drag in order to penetrate the harem; the same two pretend to be the French ambassador. But Jommelli is formally and instrumentally inventive, and never dull. His extended, carefully worked finales probably pointed a way toward Mozart's finales in *Figaro. La schiava* blends masters and men, mistresses and maids in a renewed 17th-century fashion that dethrones the formalities of Metastasio and opens a path to *Figaro* and *Don Giovanni.*

The sets and costumes were handsome. The production, by Christian Magneron, was awful: a capitulation to contemporary audiences' rejection of *opera seria.* Joseph Kerman's donnishly jokey supertitles seconded the public mirth, and Gall's poignant aria – the most beautiful number in the score, and exquisitely sung – became a barrel of laughs. But Curtis's direction was true, and if one listened without looking too hard, Jommelli's opera was marvellously moving.

The other big events were Handel's early oratorio *La Resurrezione* and a dramatized anthology from the *Carmina Burana.* In brief, both were disappointing. The Handel oratorio, conducted by Nicholas McGegan, sounded underprepared, underrehearsed. Microphones were in place to turn it into a Harmonia Mundi recording, and the "live" performance had the deadliness that infuses modern performances which are undertaken in the knowledge that the "live" event must also double as a studio-recording session. *Carmina Burana* was a sacred-plus-secular anthology from the Benediktbeuren manuscript; the singing was animated but the dramatic presentation suggested an end-of-term school pageant.

The big difference between Boston and Berkeley lies in the places of performance. Boston is rich in resonant churches and halls, and the Boston festival becomes at once an acoustical and architectural adventure. Berkeley has great churches – by Maybeck, by Julia Morgan – around its campus, but this year most of the performances were given in the large, dry, unresonant, windowless campus auditoria. It makes for efficiency: the festival is presented by the university and therefore uses the university sites. But this dulls the performances.

Andrew Porter

ARCHITECTURE

Some calculated risks

I am frequently surprised by the fact that so few architects become developers. This is particularly strange, following the relatively recent changes which allow architects to behave less as professionals and more as businessmen, and also because so many architects complain so freely about developers' lack of interest in design matters. But for developers it is largely a question of the ability to spot and take a calculated risk in the market place for which, perhaps, architects are ill-trained.

I recently heard an architectural guru say how important he thought it was to ensure that architects, and not developers, should draw up all the plans for the development of a new town. How right is this approach? If architects feel that they want to have complete control of a development then perhaps they should take on some, or all of the development risk.

On the fringes of the City of London I recently visited two schemes, where the developer and the architect are one and the same. There are many benefits to be seen in what may be considered two model small developments. The first scheme is in a highly sensitive part of London. Charterhouse Mews is on the edge of the Charterhouse itself, still one of the least known and least explored of London's secluded monastic foundations. You approach this small development of four small office buildings under the arch of a old doorway surmounted by the head of Pan.

The first impression suggests that perhaps you are looking at some carefully restored older residential buildings now turned into offices. A closer look makes it clear that these are carefully detailed and built classical façades, designed in a spirited way with English and Dutch gables. The quality of the building is high and the architect developer has used good quality materials with Portland stone window cills, lintels cornices and brickwork carefully laid in Flemish bond. Roof tiles are clay and not concrete, flashings are lead and the doors and windows made of hardwood.

The classicism is both derivative and inventive and, although only skin deep, appropriate for the delicate surroundings. The neighbouring Charterhouse, although much restored after the severe damage of the Second World War, still retains the atmosphere of a large collegiate foundation. It was therefore right to build carefully and gently in a traditional way. Inevitably, behind the façades are simple modern offices.

Not far from the Charterhouse in another part of what was once the London Borough of Finsbury, Kinson Architects have carried out another development in a totally different style. On a site purchased from the London Borough of Islington to the south of Rosebery Avenue at the junction with the Farringdon Road, these architect developers have built an interesting mixed development of flats, offices, retail and light industrial premises. This sort of mixed-use development is often exactly what is needed on a "fringe" site close to the inner city. But it is also often difficult to find funding for this sort of more complex development brief.

Again taking appropriateness as their watchword, these entrepreneurial architects have pulled off a coup by using careful design methods. The three main elements comprise a courtyard of industrial units, a square of office buildings and an interesting interpretation of the old style mansion block with flats over shops.

The most striking of the three elements is the mansion block, known as Rosebery Court. It is built of Cumbrian sandstone and brick with intriguing detailing in a style that is "Arts and Crafts" in execution and a mixture of Gaudi and Mackintosh in inspiration. Copper oxide greens in paint and glass, copper and bronze, will relieve the intensity of the pink glow of the mass of the block. The interiors of the flats are delightfully deep, with a variety of sizes of windows, rooms and terraces. I liked the solidity of the whole block on the street and the use of colour and ornament.

The industrial units are by their nature more utilitarian, but they are well arranged around a courtyard and have one very good elevation of sheer walls rising in a gradual curve up the hill from Walmer Street to Farringdon Road. I felt that this had just the right level of austerity and plainess to be elegant and very urban.

The office square is probably the most important in economic terms. It has a car park beneath the courtyard, and there is to be an oak tree in the centre of the garden. The office buildings with their slightly out of scale windows and doors and a heavy cornice detail are the least happy architecturally of the three building types. The attempt to emulate a Georgian Square does not quite come off – but it is a brave try. Certainly the mixed development is, as a whole, a great success and it manages within a relatively modest compass to provide inventive architecture and a skilful knitting together of the urban fabric. These schemes bode well for architects acting as developers.

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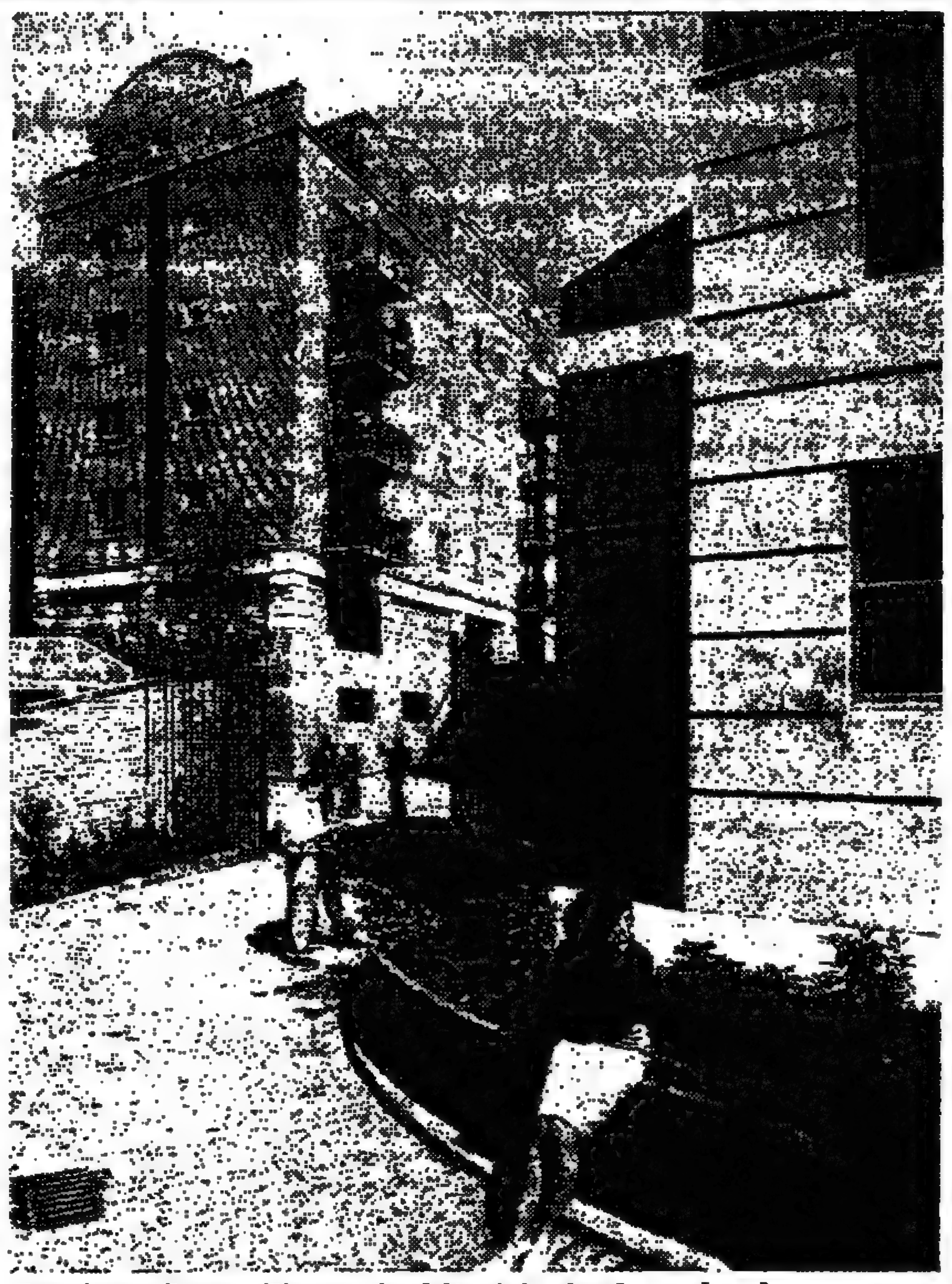
An unusual and important international architectural competition for ideas for the Ulugh Beg Cultural Centre in Samarkand, USSR, has just been announced by the Aga Khan Trust for Culture. The Centre will be part of a larger project aimed at the revitalisation of the historic core of Samarkand, where there is some of the finest examples of monumental Islamic architecture in Central Asia. The competition will have an international jury including Soviet representatives. More information is available from Dr Suha Ozkan, The Aga Khan Trust for Culture, 32, Crets-de-Pregny, CH-1218 Grands Saconex, Geneva, Switzerland (FAX (022) 798 93 91).

Colin Amery



Rosebery Court, Kinson Architects' mixed-use development

Russell Enoch and Caroline Holdaway

Master Betty/The Touch

Man in the Moon, Chelsea/ The Bush

From opposite ends of the creative spectrum come two new plays. One – "Master Betty" is witty, allusive and assumes a preoccupation with art and homosexuality that belongs to the young, chic metropolitan culture of the last decade; the other "The Touch," takes a promising subject - the ministrations of a faith-healer who is part magician and part charlatan. It comes up with something altogether drabber and more downbeat, dealing with small people and small-town realities.

Carl Miller, for a while himself a critic, has chosen as his latest vehicle the short professional life of William Henry West – a child actor whose brief brilliant career famously provoked the Younger Pitt to adjourn Parliament.

But "Master Betty" is no straight slab of bio-drama: rather, it is the hook for an investigation of attitudes to sexuality and stardom which brings Byron - mad, bad and running from Lady Caroline Lamb - into liaison with a Betty, who is already on the turn from cherubic infant prodigy to hamming poseur of the London stage.

The contrast between the glamour of Drury Lane and the humdrum reality of a pump-house - the Man in the Moon - at the wrong end of the King's Road is integral to a play that indulges in games with text and context which are clever to the point of being over-sophisticated.

A furry, drumming baby's bunny in the worst possible taste spells out the long and mundane life left to Betty once his star has waned. As an image it provides a deliciously and mischievously camp rider to Byron's attempts to talk the young thespian into suicide to prevent such a banal eventuality.

But what, then, is one to make of the Luddite who storms into the middle of their deliberations in a diatribe against everything from the extravagance of modern set design to the irrelevance of performing art? And does the prolonged nudity of James Ashfield's excellent Betty not gesture more to a fashion for baring all, than any more sustained significance?

There is a strong sense here of a young writer/director with more art than mission. Peter Lloyd, by contrast, has his targets well and truly sussed, but somehow lacks the artistry to hit the bullseye. The problem with "The Touch," directed for the Bush Theatre by Brian Stirner, is that Lloyd's characters are so small that they fail to compel the sort of interest that is vital for keeping his play on course.

At the heart of the piece is faith-healer named Vincent, who arrives in a dull Welsh backwater to gather a following of check-out girls with minor ailments probably brought about by their hopeless boredom. Some he touches, others he merely gropes. It is a potentially fascinating subject, opening up the conflict of science and faith, and exploring the nature of sickness and health.

Yet although Russell Enoch, as Vincent, manages to sustain the ambiguities of the groper with magic hands, the three women of the cast labour with roughly-formed characters and dialogue of a flat-footed humour that leaves one finally uninterested as to whether they are cured or not.

Claire Armistead

ARTS GUIDE

June 29-July 5

MUSIC

London

New London Orchestra. Ronald Corp conducts Gershwin and Korngold. St John's, Smith Square, W1 (Wed). (071-222-1061).
Luxembourg Radio Orchestra. The Emperor conducted by Carl Davis. Wagner, Beethoven, Dukas and Tchaikovsky. Barbican (Thur). (071-638-8891).

Summer Festivals in France

Paris

Chopin Festival, Orangerie de Bagatelle. Ends July 15 (45012010, 40579700).
Schumann Festival. Sorbonne Amphitheatre. Ends July 6 (42627171).

Beaune

International Encounters. L'Orchestre du Siecle des Lumieres, Gand Collegium Vocale, Amsterdam Baroque Chamber Orchestra and Ton Koopman, the Soviet State Symphony Orchestra. Until July 22. (80222451).

La Chaise-Dieu

La Grande Ecurieet Chambre du Roy, conducted by Claude Malgoire, Moscow Philharmonic Orchestra. Aug 28-Sept 3. (71094828).

Brussels

Brussels Festival Orchestra conducted by Robert Janssens and the Brussels choral society conducted by Tom Cunningham and the Da Capo 2000 children's choir perform Orff's Carmina Burana. Grand Place (513 89 40) (Wed).

Amsterdam

Amsterdam Bach Soloists conducted by Thomas Hengelbrock with Jaap van Zweden (violin). Purcell, Bach, Vivaldi, Handel (Mon). Concertgebouw (718 345).
Jazz at the Philharmonic with various soloists in a tribute to Norman Granz (Tue). Concertgebouw (718 345).
Jean-Yves Thibaudet (piano). Brahms, Paganini, Ravel (Wed). Concertgebouw (718 345).

Bad Kissingen

The fifth summer festival in Bad Kissingen (June 22-July 15) is dominated by artists from Hungary, Poland, Czechoslovakia, Russia and East Germany. The programme is led by three symphonic orchestras, the Czech Philharmonic, Polish National Radio Orchestra and the Bavarian Radio Orchestra. Other highlights include the cellist Natalia Gutmann, pianist Frank Peter Zimmermann, trumpet player Ludwig Guettler, singers Hans-Peter Blochwitz, Eva Lind, Olaf Baer, Waltraud Meier and conductor Bruno Weil. Also a performance of Handel's opera *Rinaldo* by the Halle Opera. 8730 Bad Kissingen Postf. (0971/807110).

Rome

RAI Symphony Orchestra and choir conducted by Michel Tabachnik playing Debussy and Stravinsky (Thur). Villa Borghese (6761243).

Barcelona

Grec 90 Barcelona summer festival. Coral Carmina, Camerata Bach, conducted by Josep Pons. Bach (Mon). Granada Chamber Orchestra conducted by Edmon Colomer with Narciso Yepes (guitar). Rodriguez, Albert, Cervello, Rodrigo, Falla (Tues). Orquestra Ciutat de Barcelona conducted by Franz-Paul Decker. Tchaikovsky, Glinka, Stravinsky (Thur, Fri). Teatre Grec (318 25 25).

Chicago

Ravinia Festival. Victor Borge piano and antics (Tue). Highland Park (728 4642).

Washington

National Symphony Orchestra conducted by Mstislav Rostropovich and Henry Mancini. Mixed programme of popular and patriotic tunes culminating in July 4 fireworks (Wed). West Lawn, US Capitol.

Tokyo

Cracow Philharmonic Orchestra conducted by Roland Bader, with the choir of Toho College of Music. Haydn: The Creation. Shinjuku Bunka Centre (Mon). Spohr, Faust. Suntory Hall (Tues). Mahler, 8th symphony. Suntory Hall (Thur) (401 9561).
New Japan Philharmonic Orchestra conducted by Alexander Schneider. Dvorak, Schubert. Bunkamura, Orchard Hall (Mon), Tokyo Bunka Kaikan (Tues) (499 1531).
NHK Symphony Orchestra conducted by Yuzo Toyama. Contemporary music from Asia. Suntory Hall (Wed) (465 1780).
Rainer Kuchl (violin). Beethoven, Schubert, Debussy, Strauss. Tokyo Bunka Kaikan, recital hall (Thur) (289 9999).

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Enterprise for the Americas

THERE is obviously a strong element of self-interest in President George Bush's broad ranging proposals to establish a new era of relations with Latin America. In a fast changing world caught between conflicting trends to globalise or form new regional blocks, President Bush is taking the necessary precautions in his own backyard.

Faced with the realignment of eastern Europe and the prospect of the European single market in 1992, the US has every reason to pay more attention to its neighbours. Latin America, in spite of a decade of lost growth and an enormous continuing debt overhang, still has a combined GNP over two thirds that of eastern Europe and the Soviet Union, and accounts for 5 per cent of world trade. If the Uruguay Round fails to produce the hoped for liberalisation of world trade, then this initiative could help build a fall-back position.

However, it would be wrong to see the "Enterprise for the Americas Initiative" as no more than a recognition that the US and Latin America are condemned to getting along with each other. The concept is altogether more thoughtful, and the context more historic. It catches the mood in the region where a group of democratic leaders is emerging who are committed to opening up their economies and turning their backs on discredited attempts to substitute local manufacturing for imports. Latin American is breaking free of deeply-imbued anti-US prejudices. These new leaders are beginning to find economic and political views in common with Washington. Indeed, their chief fear now is of being left at the margins of world affairs and treated with benign neglect by the US.

Turning to the markets

From the formation of the Organisation of American States in 1948 and Kennedy's Alliance for Progress in the Sixties to the Reagan era's obsession with Central America, US policies were conditioned by the overriding consideration of combatting communism. President Bush is talking the infinitely more pragmatic language of the marketplace. He is proposing that Latin America's security is best guaranteed by a prosperity built round well ordered macro-economic policies. A central element of such policies, he says, has to be a freeing of trade and investment restrictions; but in return for opening up their markets, Latin American countries will be offered fresh assistance to reduce the debt burden. At the end of the road lies the tantalising prospect of a free trade area embracing both North and South America.

Mexico's lead

All this might seem fanciful given the enormous developmental gap between the US and Canada and their neighbours. Nevertheless, Chile and Mexico are already demonstrating what can be achieved with sound economic policies and good management. Much hinges on how Mexico and the US can achieve greater integration in the light of last month's agreement to work towards a free trade area. This relationship will determine whether President Bush's professed interest in closer integration with Latin America extends to the rest of the continent.

At present the regional framework centres round the OAS and the Inter-American Development Bank (IADB), which have too narrow a base to accommodate the Bush initiative. The OAS will therefore have to perform a more dynamic consultative role on political issues, while the IADB, in conjunction with the World Bank, will have to become even more of a catalyst for development as well as a source of ideas for macro-economic strategy. A separate institution might be needed for trade policy.

The Latin American countries must be wary about putting all their eggs in one basket. It would be naive to assume Washington holds all the keys to aid or resolving the debt burden. Japan has become a significant investor, trading partner and aid giver with long-term interests especially among the Pacific coast countries. Latin America's objective must still be for freer trade and investment on a broad front that includes both the EC and Japan.

Too many City regulators

A TOTAL of five self-regulatory organisations for the investment industry was always regarded as at least one too many by the Securities and Investments Board, the overall watchdog body. Although the authorities had to bow in the early days of the new regime to the various factions which wanted to establish their own sector-specific bodies, it always seemed likely that mergers would eventually take place.

The first to be rationalised is the smallest of the five, the Association of Futures Brokers and Dealers: the idea is that it will be absorbed within The Securities Association next spring. The AFBD did an important job in cleaning up the futures business through the original authorisation process, and in establishing a rule book, but it has a high degree of overlap with The Securities Association, especially now that the London markets for financial futures and traded options are to merge.

The AFBD's original roots lay in the commodities markets, but the traditional dividing lines between the City of London's markets are less and less relevant. Moreover, the regulators are under increasing pressure to tackle what are widely perceived to be the excessive costs of the system. Merging the two SROs will permit significant savings to be achieved: some 40 shared member firms will only need to pay one subscription, and all members should gain from the spreading of overheads.

The network of regulators is still very complicated, and the results can sometimes be ridiculous. For instance, more than half a dozen different agencies, including the police and the Department of Trade and Industry, are now picking over the bones of Dunsdale Securities, a small investment firm which collapsed last month.

Cultural divide

But cutting back the number of self regulatory organisations is not a simple task. Originally it was thought that the Investment Management Regulatory Organisation would move naturally towards the Life Assurance and Unit Trust Regulatory Association, and indeed they set themselves up on adjacent floors of the same building. But in the event they quite quickly grew apart.

A merger has subsequently been mooted between Lautro and the organisation for the independent intermediaries, which would bring together the two sides of the retail marketing of collective investment products. But there is a big cultural divide between the salesmen in the one group and the independent advisers in the other. Another idea has been to merge the investment managers body into The Securities Association, but again many fund managers argue that their "buy side" activities should not be mixed with the "sell side" comprising dealers and brokers.

EC influence

International developments could now prove increasingly influential. The structure set up under the Financial Services Act 1986 never paid much regard to the need to harmonise with Europe. After much negotiation it looks as though European Community legislation will be sufficiently flexible to accommodate the self-regulatory British system as well as the more rigidly statutory approaches of most Continental states. That does not mean, however, that British firms will be competing on equal terms, if they have to cope with a more expensive and unwieldy regulatory structure.

In spite of the practical difficulties of the British framework, the original arguments in favour of self-regulation still hold good. Unless regulators can respond rapidly to the changing dynamics of the marketplace, the markets themselves may be forced to develop in accordance with the convenience of bureaucrats rather than the needs of practitioners or clients. Centralised supervision offers safety, simplicity and, maybe, economy – but the risk is that it would come at the expense of favouring big firms and discriminating against innovation.

The merger of the futures and securities regulators is a step in the right direction. But in responding to the calls for economy and simplification, it is important that the regulators should not be tempted to cut corners as well as costs.

Gorbachev's future could be decided at the party congress, says **Quentin Peel**

The Communist Party's Waterloo

At last, after months of manoeuvering, skirmishes, retreats and alarms, the real battle for the soul of the Soviet Communist Party will today begin in earnest.

Barely a week has passed since the forces of Soviet conservatism – the party bureaucrats and backwoodsmen – won a substantial victory at the founding congress of the Russian Communist Party. Perhaps that was their Quatre-Bras, on the eve of Waterloo.

That the 28th Party Congress will have the strategic importance of a battle of Waterloo is scarcely in doubt. The whole process of President Mikhail Gorbachev's perestroika hangs in the balance, after five extraordinary years which transformed the political climate in the Soviet Union and the world, and failed to change the system, or dislodge the party bosses who control it.

The only question is whether President Gorbachev will be cast in the role of the Emperor Napoleon, or whether he can use his extraordinary political skills to turn the tables on his opponents, and emerge in the cloak of the Iron Duke.

The Soviet leader could face disaster if he loses control of his party to die-hard anti-reformers, even if he remains its nominal leader. He would regard it as a disaster if he keeps control, but the party splits, as seems ever more certain. The ultimate defeat would be for Mr Gorbachev to be ousted as party leader, too.

Victory would be to force through this monolithic institution, which many now see as the greatest barrier to continued reform in the Soviet Union, an overhaul of party policy and party rules committing the communists to grass-roots democracy, a genuine multi-party system, and a rapid transition to a market economy. It is asking an awful lot.

And yet it is not simply a question of who will win this battle, scheduled to rage for 10 days or more, even if it proves possible to identify the victors in the predicted carnage. The other question is whether the battle is worth fighting at all.

The political and moral authority of the Soviet Communist Party, standard-bearer of the October Revolution, has never been so low. When the Siberian newspaper Sibirskaya Gazeta questioned its readers last month about whose interests the party promotes, 85 per cent said "party functionaries." Only 7 per cent said "the people as a whole," and a miserable 2 per cent suggested that it was "the working class." As for party members, only 27 per cent said they would join again, if they were given a chance to relive their lives.

"The party has become a swearword among ordinary people," said Mr Alexander Sarychev, a disaffected former party bureaucrat.

It is hard to meet anyone outside the immediate party bureaucracy with a good word to say about the organisation, whereas the bitterness at party privilege and corruption is all-pervasive. That is the public mood which Mr Boris Yeltsin, the maverick former member of the Politburo, has so successfully exploited to return to the top as president of the Russian federation.

On the other hand, unpopular as it may now be, the party still controls virtually all the machinery of power in the country. For more than 70 years it has been the effective state.

The nomenklatura system has dictated who gets which job at every important level of authority, in factories, farms, schools and institutes. It not only controls the state apparatus, but also the military high command, and perhaps most important and pervasive of all, the still hugely powerful KGB, the State Security Committee.

The fact that the party is deeply divided between reformers and conservatives, means that all those institutions are divided too. And yet the party is perhaps the only cement holding them together at all.

Six months ago it appeared that Mr Gorbachev had finally decided that he could walk away from the party. When he became state president in March, he appeared to be deliberately setting himself up in an alternative power base, making it only a matter of time before he abandoned his position as party leader to a lesser ally, confident that he no longer needed the political base.

Last week, against a storm of criticism from both left and right (from Mr Yeltsin and from Mr Yegor Ligachev, his arch conservative colleague), he made it clear that he does not believe he can afford to leave the party to anyone else.

"I think we should come to the division of powers in a natural way," he told the Russian communists. "However I am convinced that at this moment we must keep things as they are in principle, although in different forms, perhaps ... I think you will agree with me that the process of dividing power (between the party and elected bodies) has not yet been completed ... Should we divide the posts, or keep things as they are? I believe that we should keep things as they are."

Certainly it is true that without Mr Gorbachev, the Communist Party would be a far more conservative institution. Over five years he has bullied, confused and blackmailed a conservative majority into backing his reforms, at every level from the Politburo downwards. If he is voted out as leader, then the probability is that it would become an open bureaucratic opposition to the executive (the presidency) and legislative bodies (the soviets), creating a profound constitutional crisis: the state would be in opposition to the state.

The Soviet leader's closest aides also see a real political danger for Mr Gorbachev if he abandons the party, even in its present plight. For he would be promoting himself into the

Victory would be to force through a massive overhaul of the monolithic institution, which many now see as the greatest barrier to continued reform

job of an increasingly powerless referee between the real political opponents, as represented most visibly by Mr Yeltsin, on the reformist wing, and Mr Ivan Polozkov, the deeply-conservative new Russian Communist Party leader.

Finally, he genuinely sees himself as a unifying, consolidating force, when all around is starting to disintegrate: the Soviet empire in eastern Europe has already gone. The Soviet Union itself is under enormous centrifugal pressure, in which both conservatives and radicals in Russia, its most important constituent part, are conspiring.

That seems to be why Mr Gorbachev is still fighting for the soul of the party. He says it is to create a new vision of a humane and democratic socialism. Pessimists would see it as a desperate effort to control and manage the inevitable disintegration of the party.

Gorbachev has to secure victory on three fronts: on a new party policy, new democratic party rules, and on a new leadership. The odds are against him

The question then is whether he can win the day, and what victory or defeat would mean.

The odds are against him. Conservative communists from the full time bureaucracy of the ruling party and the state dominate the ranks of Congress delegates. Out of the 4,700 summoned to Moscow for the big event, no less than 48 per cent are full-time party functionaries, according to the dissident Democratic Platform. Another 20 per cent are ministers, factory and farm directors, and other appointed officials. Fewer than 7 per cent will be workers and peasants, although they make up more than 50 per cent of party membership.

Of course not all the apparatchiki are Gorbachev opponents. He has presided over some sweeping personnel replacement since 1985. But none the less, the Russian party congress showed that the conservatives have a clear majority, and that the bureaucrats are looking for revenge.

The Democratic Platform, those Communist dissidents who want to turn the Bolshevik movement into no more than a parliamentary party, claim that 40 per cent of rank-and-file members support their programme – and no more than 100 (2 per cent) of the Congress delegates. They are demanding such sacrilegious reforms (to the party faithful) as the compulsory disposal of party property to rival parties, and the return of party funds to state coffers.

Mr Gorbachev insists that such wild revolutionaries are not his allies. He is "fundamentally opposed" to the creation of a "parliamentary party" instead of the traditional Marxist concept of a "vanguard party." Yet in the light of the collapse of party support, and the abandonment of the party's constitutional monopoly on power, such distinctions appear increasingly academic.

The party leader's problem is that the Democratic Platform is committed to walk out of the party if it is not

The Soviet leader could face disaster if he loses control of his party to die-hard anti-reformers, even if he remains its nominal leader

fundamentally reformed, abandoning the old principle of "democratic centralism" (the enforcement of obedience by lower party bodies to the diktat from the top) and promoting grassroots democracy instead.

The conservatives, who pay lip-service to the promised switch to a market economy, but who clearly detest it as a reversal of all their socialist principles, disguise their opposition to reform behind the rhetoric of party unity. Yet they have become increasingly open in their attack on the leadership in general, and by implication, Mr Gorbachev in particular.

"Many Soviet people have lost faith in the party's capacity to take the country out of its grave condition," Mr Polozkov declared after his election. "In this I do not see a crisis of the Communist Party, but rather a crisis of its leaders."

The radicals maintain that any possibility for compromise embracing both themselves and the conservatives has vanished.

"Gorbachev will find it very tough," says Mr Vladimir Lysenko, a co-ordinating committee member of the Democratic Platform. "The possibilities for compromise, which have been Mr Gorbachev's main tactical weapon throughout perestroika, are now virtually exhausted."

He believes that a split will only be prevented "if the centre and Gorbachev swing decisively to the left, making it possible to keep up the democratic momentum in the face of a right-wing threat."

That is exactly what senior party officials have been hinting in the last few days that the Soviet leader has in mind, amid a flurry of last-minute negotiations. "A coalition between the centre and the right is not in question," says a well-placed source.

What is going for Mr Gorbachev is that the conservatives know they cannot win popular votes, at least in the big cities like Moscow, Leningrad, Sverdlovsk and Kiev, where so much of the political debate is dictated. The party bureaucrats have been consistently and roundly defeated whenever they have stood in genuine electoral contests.

Nor do the conservatives have an alternative leader. Mr Ligachev is hugely unpopular, blamed for the anti-alcohol campaign, and now mocked for his failure to make any impression on agriculture. If the party congress is well televised, it will discourage conservatives from harking back to the good old days before a national audience.

Mr Gorbachev's strategy must be once again to call their bluff, and try to force them to maintain party unity by voting for reforms they really find to be anathema.

He has to get victory on three fronts: on a new party policy, new democratic party rules, and finally, on a whole new leadership.

Whatever happens, everyone expects a huge turnover in personnel at the top. Mr Gorbachev is proposing a new structure, with a congress-elected party chairman and two deputies, while the general secretary's job would be downgraded to that of first secretary, co-ordinating the implementation of party policy. The old furtive politburo would be replaced by a much larger presidium, bringing in all 15 republican party leaders, thus inevitably making the party a much more federal structure.

Given the balance of power in the congress, the chances of a very public split, with a large minority walking out, are slim. What is more likely is a conservative domination of the new central committee, and the Democratic Platform setting out to form a new party, which might well be the first really serious challenger to party rump across the nation.

In those circumstances Mr Gorbachev may very well be forced to choose, if not at the Congress, then soon after. He has threatened to resign, if the party stops his reform process. That would leave him forced to rely on his executive authority as President, and without a political power base. Yet if a conservative victory at the Congress means that he quits the party sooner rather than later, perhaps the reformers will have won in the end.

OBSERVER

Sponsoring the umpire

■ Some of the proposals approved by the International Cricket Council last week are even more radical than had previously been supposed. Not only will there be neutral umpires at Test Matches; there will be an off-the-field match referee who may be in touch with the umpires by electronic means.

The referee will not be able to overrule a leg before wicket decision even if an instant television replay shows it to have been wrong, or at least not yet. But according to Colin Cowdrey, the chairman of the ICC who has done much to pioneer the changes, that is where we may be in 10 years' time.

Before we go on with the cricket, however, there is one major obstacle to be overcome, and that is funding. The ICC approved a plan for a panel of independent umpires for Test Matches among the top seven cricketing countries. It will cost about £400,000 a year to run. But there is at present no money in the game to finance that sort of activity.

So the search is on for a sponsor. This will be conducted in a gentlemanly, word-of-mouth manner. Cowdrey hopes that some cricket-loving executive will be able to persuade his company board of directors to cough up.

The rewards could be considerable in terms of publicity. There are about 35 test matches a year played around the world, most of them in the English winter. The number will rise if cricket continues to advance as an international game.

Test Matches also make very good television. And as we know from Wimbledon and the World Cup, the umpire or referee is an essential part of the television sporting scene. Not only is he a talking point for commentators; he also makes crucial decisions, on some of which – to judge from the World Cup – the fate of a nation almost seems to depend. It is essential that standards are high.

Cricket so far has relied on neutral umpires supplied by the host country in a Test Match series. This may be just about all right in England where there is a large supply of professional umpires with plenty of experience. It works less well in countries where experience is limited.

Thus Test cricket, with the blessing of the ICC, will go the way of other sports. On top of the independent umpires, the off-the-field referee will keep on eye on events as they happen. It will be he, for instance, who might call for disciplinary proceedings against a player. The panel might be named after its sponsors and the umpires could wear discreet company logos.

More details should be known in October. Cowdrey tells us that the plane is down the runway. The aim is to have it flying for the England v West Indies series in England next summer.

Apple's men

■ There is a splendid irony in the news, announced last week, that Apple Computer is hiring the general manager of Hewlett-Packard's personal computer division to run its US operations.

Steve Wozniak, Apple's co-founder, was working for Hewlett-Packard when he designed the original Apple computer in his spare time. As H-P rules required, he offered the design to his employers. They saw no future in personal computing, and gave him a waiver allowing him to pursue the project himself. So he and Steve Jobs, Apple's other founder, started up their first production line in a Silicon Valley garage, just as David Packard and Bill Hewlett had done forty years before.

"Back to the drawing board."

Now, Apple, a corporate incarnation of the antithesis of established electronics industry attitudes, is reaching out for an infusion of new management talent to Hewlett-Packard, the company that originally turned down the project on which it built its name.

Threatening

■ Standard Chartered, one of the few UK institutions to be represented in Cameroon, the land of England's World Cup opponents yesterday, had a curious request from its local medical adviser a couple of days before the match.

It was for a "fresh lock of hair from the most powerful Englishman we know" and "a branch of fresh leaves from the most potent tree we know of in England". The message suggested that Rodney Galpin, Standard's chairman, supply the first, and that the caretaker of Standard's Bishopsgate headquarters provide the second from the bank's leafy atrium.

The latter part of the message was more ominous. It was a reminder that the forebears of some of the English players still live in Africa. "Arrangements have been made on this side to have invisible pygmies visit their villages as of Saturday June 30. Their activities on their ancestors will depend on the performance on Sunday."

Semi colon

■ Lord Hailsham wrote in a political pamphlet many years ago: "Conservatives do not believe that politics is the most important thing in life...The simplest of them prefer foxhunting, the wisest religion."

He recalls in his memoirs, published this week, that for years afterwards even the most educated people would accuse him of having claimed that foxhunting was the wisest form of religion. If ever there was a case for a semi-colon, that is it.

Guards plc

■ A Guards officer has come up with a plan that would combine the best of defence cuts with the best of privatisation. He reckons that the Guards and the Household Cavalry are the only members of Her Majesty's forces rich and well-connected enough to organise a management buy-out. They could depend on numerous ex-officers in the City to help. The Government would then be charged for their services like Trooping the Colour, Guard duty at Windsor and their tours in Northern Ireland. If successful, they would offer their services abroad and seek a quotation on the Tokyo Stock Exchange.

Broken glass

■ How many members of the Militant Tendency does it take to change a light bulb? It's no use trying to change it. You've got to smash it.

A scoring chance on the diplomatic field

As Rome assumes the presidency of the European Community, John Wyles reports on the growing doubts about Italy's preparedness for the single market

These are the months of bread and circuses in Italy. The World Cup is exceeding all expectations as a source of popular distraction, while the political class is preparing to satisfy its more vainglorious requirements under the international spotlight which swung yesterday from Dublin to Rome as Italy took over the presidency of the European Community.

Indeed, the next six months offer a rich harvest of opportunities for Italy to put a modest mark on crucial events and to win the international respect for which its governments crave. But with the economy showing some signs of softening, a one day general strike due next week which will be the first over an industrial issue in eight years and the government's fiscal policy in a state of near permanent distress, the coming period will also be the occasion for growing doubts about the nation's state of preparedness for the rigours of the internal market.

The relationship between international influence and domestic political vitality is a cloudy one. Enormous economic strides in the 1980s have established Italy as the world's fifth industrial power, but in the view of most observers it still does not box in the political heavyweight division. History and geography are part of the explanation, but more crucial now is an international reputation for unstable, underperforming and unreliable governments.

The Italian political class as a whole is not visibly discomforted by this. It refuses to show indecent haste in passing legislation through parliament to clear away the backlog of 200 or so EC directives which are still not applied in Italy. A change of culture, rather than legislation, will be needed to improve Rome's appalling record of non-compliance with European Court judgements. To some of its EC partners, Italy's commitment to European union is more like a two dimensional film set, all Eurofederalist facade and no depth.

Mr Gianni De Michelis, the Italian Foreign Minister, whose flowing curls and generous girth have helped to find him a global audience since his appointment a year ago, does not believe that such matters will prevent Italy from preparing for, and exercising real influence over, the two intergovernmental conferences on political and economic and monetary union which will meet in Rome in December. Nor does he think that doubts about Italy's reliability will affect his ability to organise the Community around agreed positions in advance of the final round of the GATT negotiations, also in December, and of the 35-nation Conference on Security and Co-operation in Europe to be held in Paris. "We are now Triple A," he said in an interview with the Financial Times some months ago, "because our economy has carried us into that restricted group of important countries, the G7."

Nevertheless, the question which many EC embassies in Rome are seeking to answer for their capitals this week is: "Will the present government last during the six months of the presidency?" Among the other 11, there is an understandable concern that halfway through the exercise the EC's general affairs council may have to adjust to a presence altogether different from that of Mr De Michelis and that, much worse, Italy's management of community affairs might be paralysed by a domestic political crisis.

Soothsayers with up-to-date charts will already have established that when it celebrates its first birthday on July 23, the coalition led by Mr Giulio Andreotti will already have exceeded the average life-span of post-war Italian governments. It is, moreover, so rent by divisions within the dominant Christian Democrats (DC) and by inter-party squabbling that Mr Andreotti himself said last month that he would have resigned if the EC presidency had not been so imminent. The importance of the Community role has even prompted President Francesco Cossiga to appeal to the coalition parties to behave themselves until the end of the year.

Mr Cossiga's anxiety to see the part played well and without mid-production hysterics may owe something to his recollections of the EC presidency of 10 years ago. Then it was that Prime Minister Cossiga had to endure more than a little embarrassment because a domestic political crisis forced him to postpone a highly anticipated European Council on Britain's EC payments problem. Now that the Community is anxious to be the lead designer for Europe's new political and economic architecture, Italy's image would undoubtedly be scarred if any equivalent appointments were missed.

Mr Bettino Craxi, the man most likely to cause a political crisis, knows this well enough and will almost certainly refrain from giving Mr Andreotti the coup de grace until early next year. The Socialist Party leader needs no lessons on the importance of the EC presidency as a vehicle for personal and national promotion. He was prime minister in 1985 and earned his European spurs during Italy's last sojourn in the chair by breaking with tradition and forcing a vote at the Milan heads of government summit on whether to call an intergovernmental conference to revise the Treaty of Rome.

Since then, the smell of corruption and decay in Italian politics has definitely worsened, leaving government and parliament seriously behind schedule in producing many of the basic reforms for preparing the country for post-1993. New measures to sustain small and medium-sized businesses, to open up the banks to private capital, anti-trust regulations, curbs on *insider trading and other* financial market reforms have been delayed by every conceivable rearguard action.

This inactivity suggests a rather deep seated malaise which could cost Italy dearly in a world where political rhythms need to correspond somewhat more closely to commercial and technological developments. But the proliferation of political parties and the domination of just two, the DC and the Socialists, defines the problems.

The rivalry between the parties is scarcely regulated by electoral choice, because Italy's excessively proportional system never allows the voter to determine the composition of his or her government. However, issues move with the ebb and flow of the tides in Italian politics until one day they are beached on the political agenda. Both electoral reform and the limitations on the current time-wasting duplication of activities between the two houses of parliament seem to be heading for the shore under pressure from a growing popular demand for influence on the composition of governments and for altogether better government.

When Mr Ciriaco De Mita became prime minister in April 1988, he declared that the country's "entire political system" was in crisis and warned that Italy's continued participation in the Community was threatened by "uncontrolled public spending and an outrageous deficit". He was looking back to a 1987 deficit of L114,140bn or 11.6 per cent of gross domestic product, and would preside over its increase to L125,495bn (11.6 per cent of GDP) in 1988. Political crisis and elections meant that no one did much presiding over a 1989 deficit of L133,500bn (11.3 per cent of GDP). This year's shortfall will be at least L135,000bn.

Mr De Mita's contribution was to create a medium-term plan for curbing the deficit in nominal terms and then reducing it as a percentage of GDP by 1992. Mr Andreotti's government has, if anything slightly toughened the deficit reduction objective. Neither government nor parliament has done anything in the past five years to suggest that the targets are remotely achievable.

In some ways it is a tribute to the EC's success in diversity that in spite of its dubious economic qualifications it will be Italy which will present next December to the intergovernmental conference a draft treaty on Economic and Monetary Union. Among other things, it will seek to create a basis of rules for all member states which would make it impossible for Italy to continue financing current spending by borrowing, and to allow the ratio of public debt to GDP (currently at par) to go on rising.

This search for external sources of discipline, or alibis for controversial action, has long characterised Italy's membership of the EC. This year the government has greatly expanded the potential sources of external pressures to act on the deficit by lifting of exchange controls and putting the lira in the Exchange Rate Mechanism's narrow 2.25 per cent band.

As time passes, it seems much more probable that only a financial crisis will force the parties to make the difficult spending choices which they are evading, to introduce the administrative reforms of the health and pension systems which are being delayed, as well as to privatise areas of the public sector and to overhaul the tax system.

The possible humiliation of not being able to participate fully in the creation of a federal Europe could be another useful spur to achieve some of the changes Italy so badly needs. Poor public services, bureaucratic inefficiencies, inadequate infrastructures, a grotesquely large public sector, a huge North-South development gap and the unrelenting creation of public debt are largely part of the same problem: the incapacity of the political system to confer clear rewards for good government and painful penalties for bad.

Unless or until the Communist Party succeeds in creating a credible alternative to the left, the present crop of Italian ministers are now possibly the only politicians left in Europe who need have no real fear of being turned out by the electorate. Dictatorships, even elective, usually collapse through their own inefficiencies and so could the Italian version. More likely, however, is that the ambition of ordinary Italians to remain one of the European Community's leading economic powers will force the politicians, by one means or another, to raise their game in the 1990s.

LOMBARD

Why Thatcher is no Thatcherite

By Samuel Brittan

Mrs Margaret Thatcher's utterances during the Dublin EC summit have once more demonstrated that, whatever else she is, she is not a Thatcherite. She is clearly as hostile as she ever was not only to European monetary union, but to the Exchange Rate Mechanism of the EMS, which she has been pledged to join since the Madrid summit a year ago. It is not, however, this hostility which removes her from everything which is normally regarded as Thatcherite economics, but some of the reasons she gives for it.

At the post-Dublin press conference she recalled past sterling crises when "your reserves dwindled, you then had to slash public expenditure, wages had to come down and unemployment went up rapidly." She also teased President Mitterrand for having allowed *French unemployment to rise* in pursuit of a D-Mark link, while the French President pointed out what had happened to UK inflation in its absence.

An innocent might suppose that the French Socialist and the British Conservative had changed places. The Thatcher line was almost identical with that of the Labour left which opposed the Callaghan-Healey IMF package of 1976 on the grounds that it was putting jobs and growth at risk for the sake of sterling. Indeed, Mrs Thatcher found herself on Thursday afternoon in complete agreement with an impassioned statement by the former Labour minister Peter Shore, who has been a strong devaluationist as well as English nationalist, and in some agreement with Tony Benn.

Mrs Thatcher's stock examples of the folly of fixed rates are the breakdown of Bretton Woods in 1971 and the British departure from the currency 'snake' in 1972 after six weeks. She conveniently forgets that the British espousal of floating rates in 1972 was part of the Heath dash for growth, in which a fixed sterling rate was seen as an obstacle to spending ourselves into prosperity through cheap money and higher public spending – the very things that Thatcherism is supposed to be against.

As for the Bretton Woods system, that gave the world a much lower rate of creeping inflation than it has had since its collapse, precisely because the fixed parity with the dollar acted as a safety catch against the simple-minded demand expansionism of the times. Bretton Woods broke down when the US financed the Vietnam war by inflationary means and thus disqualified the dollar as an anchor currency.

More important than whether Mrs Thatcher is a Thatcherite is the question of British good faith. The Prime Minister has insisted that there would be no locking in of currencies in the Exchange Rate Mechanism because "you could have one of those weekend sessions when you alter the valuation of your currency. So there is no locking at all . . . and it would not work if there were."

This goes against the expressed intention of ERM members to avoid realignments (there have been none worth mentioning since 1987). Moreover, all EC members accept that the narrow 2¼ per cent margin should be in force by the time Stage One is completed at the end of 1992. A 6 per cent margin for Britain would be a transitional concession, which after these remarks the British Government hardly deserves.

Most important of all, joining the EMS amid talk of realignments would undo much of the benefit of membership. For which wage negotiators are going to be influenced by a currency peg which Mrs Thatcher insists can readily be withdrawn? It looks as if even after ERM entry the Cabinet level hassle about whether to peg sterling will continue; and Mrs Thatcher's reiterated predictions about the breakdown of the System may be self-fulfilling – but only for Britain. More likely, the Prime Minister will not find it as easy to devalue as she supposes, but the UK will have to undergo, as France did, an unnecessarily severe period of rising unemployment to achieve cred*ibility*. Either way the political and economic cost, unless Cabinet government is reasserted, could be huge.

LETTERS

'Were 364 economists so wrong?'

From Mr John Shepperd.

Sir, A myth has grown up in recent years – a myth that the 364 economists were wrong.

It hardly needs to be said who the 364 were, and what they did that made them collectively famous (or infamous). They put their names to a "Statement on Economic Policy" which appeared in The Times in March 1981. Their view was that economic policy was misguided, and that a change of direction was required.

As is often the case with economists, their timing was poor. The Central Statistical Office placed the trough of the early 1980s recession in January 1981. Although there is no way the 364 could have known, activity was picking up by the time the statement was published.

Since then, a politician has only had to mention the 364 to deflect any academic criticism of policy. It has become an effective shorthand way of ridiculing ivory-tower academic theorising.

The recent study from the Institute of Economic Affairs (IEA), "British Economic Opinion," cites the statement by the 364 to illustrate the poverty of economic thought in the UK, and to show how out of touch economic thinking was (and still is) with current economic policy.

And yet, were the 364 economists really so wrong? Two specific points they made have been ridiculed. The first was that "there is no basis in economic theory or supporting evidence for the Government's belief that by deflating demand they will thereby bring inflation permanently under control."

This looks better today, with inflation heading back into double figures, than it did a couple of years ago. The emphasis on no permanent improvement in inflation was well-founded, given that we are now going through another attempt to reduce inflation by slowing the growth of domestic demand.

The other specific point was that "policies will deepen the depression" – a depression that was beginning to lift as the 364 wrote. But the remaining substantive point was true; the intensity of the 1980-81 recession was in part caused by UK government policies, as members of the government at that time have admitted.

The statement concluded that "the time has come to reject monetarist policies" and to consider alternatives.

This is the heart of the matter. As was clearly appreciated at the time, the statement by the 364 was an attack on monetarism. The rest was window dressing.

The history of policy since the statement has been a movement away from monetarism and a search for an alternative. The end of serious monetary targeting came in 1985. We have yet fully to embrace the only realistic alternative, an exchange rate target – although the time is almost right (or ripe).

The 364 were correct in their attack on monetarism, which did not deliver the goods. It remains to be seen whether the Exchange Rate Mechanism (ERM) will bring the change in inflation expectations in the labour market that the UK economy so desperately needs.

The true criticism of the 364 is not that they were wrong, but they did not have the courage of their convictions. A more active participation in the policy debate by some of the distinguished names among the 364 might have helped avoid some of the policy mistakes that have been made in the years since they last stuck their collective head above the parapet.

John Shepperd,
Chief Sterling Bond Economist,
SG Warburg Securities,
1 Finsbury Avenue, EC2

Practical problems with the Ecu

From Mr Stewart Vaughan.

Sir, You quote Mr John Major, the UK Chancellor (June 21): "Ecu bank notes could provide a natural currency for tourists and business travellers. The idea could catch the popular imagination . . ."

Does he believe that retailers are going to price all their goods in two currencies, local and Ecu, with a till for each? What is the owner of the Lakeland pub or the Provençale brasserie going to do with Ecu takings? Deposit them in a separate Ecu bank account? Change them into local currency at note exchange rates? Or will hapless staff or suppliers be persuaded to accept payment in Ecu notes? Sometime the accounts will have to convert Ecu to local currency – or will the proprietor send two cheques with the VAT return – an Ecu cheque on Ecu sales, and a local currency cheque?

To quote prices in Ecu has obvious advantages for inter-European trading companies wishing to limit currency risks. By its definition, the Ecu will fluctuate less than any of its constituents. But to suggest that its use as a parallel currency for retail sales would be a "first practical step towards . . . building up . . . the Ecu" indicates a lack of understanding of the real world.

Stewart Vaughan,
35 Avenue de la République,
Paris, France

Clean and fresh at the other end of the world

From Mr Patrick Smellie.

Sir, What is eating your editorial writers that their opinion of New Zealand is so harsh?

First comes a petulant attack on Norwich Union for its purchase of State Insurance; you more or less claim that New Zealand is so small and pointless that it is almost a wonder that anyone lives there.

Then, an equally unkind raspberry for the US purchase of half of our telecommunications system, at a very creditable price.

The only rational explanation for these outbursts is pure, green envy. After all, New Zealand now has an inflation rate running at about half the UK's – and considerably lower home mortgage interest rates.

New Zealand also has a telecom system which can at least attempt some sort of real competition, instead of the tangled skein of regulations tied around the throat of any rival to British Telecom.

Could it be that the toxic air of Europe has poisoned your leader writers' minds – an impossible occurrence in the clean, fresh atmosphere we enjoy at this end of the world?

Patrick Smellie,
Christchurch Press,
Parliamentary Press Gallery,
Wellington, New Zealand

Private clients still matter

From Mr Hugh Marsden.

Sir, You comment (Lex, June 25) on the matter of allocating blame for any poor performance of British industry and its financial structure *vis à vis* the shareholder and the City of London.

The comparison between companies is difficult enough, and between countries even more so, but there are some features in common which you do not discuss.

Surely the private shareholder deserves a mention. Indeed, the smaller percentage of direct investment by private shareholders over the last few decades has been a noticeable and disappointing feature.

I am a private client stockbroker. Most of my clients invest their money for two reasons: to preserve their purchasing power against the ravages of inflation; and to provide increasing income.

There are risks in buying shares as against lending the money to a bank or buying long term debt, and consequently the rewards of success must be increased dividends and capital values. If one was successful the whole time, there would be no need for above average performance to make up for relative failures.

You fail to recognise that over many years corporate life has tended to favour managements' cushioned existence at the expense of shareholders. It does no harm – at times – to have "a push from behind." We all need incentives; none more so than private shareholders who take a risk.

As a trading nation the UK must never forget that it relies on individuals. You ignore the private shareholder and his or her needs.

I might go even further. I might suggest that the Government has laden the private shareholder with all sorts of disadvantages, from very expensive and cost ineffective regulations (through the imposition of the regulatory bodies) to artificial schemes such as personal equity plans (PEPs). This sort of thing tends to divorce yet further the private shareholder from direct contact with management – and impose extra layers of costs, which benefit the professional managers before the private investor receives any reward.

Hugh Marsden,
29 Abbotsbury Road, W14

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PORTUGUESE ECONOMY

Lisbon ponders thorny question of ERM

Patrick Blum examines a dilemma complicated by political as well as economic factors

With anxious eyes focused on London and Madrid, Portugal is wrestling with the question of when to join the exchange rate mechanism (ERM) of the European Monetary System.

Political as well as economic considerations have made a decision more difficult in spite of a broad consensus over what constitutes the right circumstances – namely a reduction of the inflation differential between Portugal and its European Community partners.

So far, efforts to bring inflation below 10.5 per cent have failed. In May the annualised rate reached 12.6 per cent, or 14 per cent on a year-on-year basis, more than double the EC average. Such a level is considered an obstacle to immediate membership.

Mr Jose Alberto Tavares Moreira, governor of Banco de Portugal, the country's central bank, cautions against an early entry. "In my view it is too early to join: I don't see this before the end of 1991," he said. "We need a clear reduction of inflation to below 10 per cent. That is the minimum required."

The Government may have other ideas. Mr Anibal Cavaco Silva, Prime Minister, appears to favour an earlier move. On June 6, he sent demand for the escudo soaring when he unexpectedly declared that Portugal's entry into the ERM "was not very far away."

This was widely interpreted to mean that the escudo would join on July 1, encouraging speculation and capital inflows which reached over $1.2bn in the ensuing fortnight.

Most was short-term money attracted by high local interest rates and the escudo's stability. The market moved on expectations of a firmer Portuguese currency once it joined the ERM. Portugal maintains a crawling peg, allowing the escudo to depreciate three per cent a year.

Denials rapidly followed Mr Cavaco Silva's declaration but with little effect. The market appeared to believe this was a ploy to discourage speculation.

As a result, the central bank on June 22 advised financial institutions that it would curb the volume of capital inflows by suspending for 90 days all capital swap operations by non-residents. These had become a major avenue for the circumvention of tight monetary controls and regulations over external credits.

Last Friday the central bank further tightened foreign borrowing by forcing companies to deposit with it at no interest the equivalent of 40 per cent of any new loans from abroad.

These moves were a step backwards by the authorities from earlier measures to liberalise the financial system, but the central bank was under strong pressure to respond.

"The inflow of short-term currency was playing havoc with the money supply. Overheating was so great that they (the authorities) had to do something," a foreign banker said.

Although the rush into escudos was at first seen as a vote of confidence, not everyone relishes the prospect of an appreciating currency. Local exporters already complain that the escudo is overvalued and say its rise would threaten the international competitiveness of Portuguese products. It would also encourage imports and further undermine efforts to reduce the trade deficit.

Economic growth – at about 5.5 per cent last year and set to reach about 4 per cent this year – has boosted internal demand. In spite of measures to curtail credit and consumption, imports still rose by near 16 per cent in 1989. Exports rose faster, by 26 per cent, but the trade deficit remained almost unchanged at Es979bn ($1.2bn).

Initial figures this year show a worsening trade balance. Between January and April, exports grew by nearly 22 per cent, but imports, rising by 20.4 per cent, have picked up again, suggesting that last year's relative success in holding back consumption may be faltering.

"There is strong pent-up demand for consumer goods, and the Government's efforts to control consumption through credit controls is not working any more because people are simply saving less in order to buy more," said Mr Tavares Moreira.

Unless the picture changes during the year, it will add to the Government's inflation worries. Companies face the prospect of much tougher competition with the completion of the European internal market in 1992.

A stronger escudo could be the last straw for many businesses which already suffer under the burden of high local interest rates. The prime corporate rate for first class borrowers currently stands at 21-24 per cent. The central bank's latest measures will add to that burden.

All of which presents the Portuguese authorities with a dilemma. Portugal has shadowed British hesitations about the ERM, but Britain now appears closer to joining, and Lisbon does not want to be left out in the cold.

The experience of Spain is also being studied closely, although Portugal's inflation now stands at about double that of its neighbour when it joined the ERM, and Spain had by then already undertaken some tough economic restructuring.

Joining the ERM will involve some painful adjustments, including more adherence to tough monetary discipline and a greater effort to control the budget deficit, now standing at about 7 per cent of gross domestic product.

Political considerations therefore appear to work against Portugal joining before general elections, due in the second half of 1991. However a move by Britain before then could compel Portugal to follow and provide the Government with an excuse for unpopular measures that would be involved.

Bush proposes technical help for Moscow

By Peter Riddell, US Editor, in Washington

PRESIDENT George Bush will this week propose to other western leaders a package of technical assistance and co-operation to help the Soviet Union move towards a market economy.

The plan will not include direct financial aid, which the US, along with Japan, Canada and Britain, opposes at this stage. This opposition stems partly from political reasons, but also from the view that it is best to wait until the Soviet Union has put economic reforms in place.

US proposals will be put to western allies at the 16-nation Nato summit in London this Thursday and Friday and at the annual meeting of the Group of Seven leaders in Houston, Texas, starting in a week's time.

Mr Nicholas Brady, the US Treasury Secretary, has said the Administration will "actively try to be of help in providing technical assistance to the Soviet Union as it turns into a market economy."

Among the options being considered is some form of closer involvement by the Soviet Union with the International Monetary Fund and the World Bank. This might be similar to the observer status the Soviet Union has just been granted at the General Agreement on Tariffs and Trade.

There is no provision for a country to have observer status at the IMF and World Bank, but some arrangement to allow the Soviets to see how these institutions work has been suggested. This would be part of the closer integration of the Soviet Union with the west, though full Soviet membership of the IMF is some way off.

Among other ideas being floated are the provision of experts to help Moscow develop a private housing industry, private banking and a stock market and of advice on management training and accounting programmes.

Mr Bush, who is due to consult today with his leading foreign policy advisers at his Kennebunkport holiday home in Maine, wants to ensure that the US offers positive support to Soviet economic reform. He also wants to avoid a divided western position.

US officials are working on a multilateral approach which is likely to endorse the provision of technical advice as well as acknowledge the special position of the Bonn Government in providing short-term credits to Moscow.

The Houston summit may follow the lead of last week's European Community meeting in Dublin and request further study of Chancellor Helmut Kohl's proposed $15bn aid package for the Soviet Union.

Personal representatives of the Houston summit leaders (from the US, Japan, West Germany, Britain, France, Italy and Canada) met in New York at the weekend to discuss not only assistance to the Soviet Union, but also the current Uruguay Round trade talks and how to advance discussion on the elimination of greenhouse gases.

US proposes nuclear shell withdrawal, Page 3

Gorbachev to urge overhaul of party policy

By Quentin Peel in Moscow

PRESIDENT Mikhail Gorbachev will today challenge his ruling Communist Party to overhaul its entire party policy and structure in the face of a drastic slump in its national prestige.

He will attempt to persuade an overwhelmingly conservative party congress to jettison 70 years of Marxist orthodoxy, or collapse in division and disarray as the Soviet Union moves to a multi-party system.

The crucial meeting of nearly 4,700 party delegates which opens in Moscow today presents the Soviet leader with probably the greatest political test since he came to power more than five years ago.

He faces a rising conservative backlash from the full-time officials in his ruling party, growing public dissatisfaction at the rapidly deteriorating economic conditions in the country, combining soaring wages and declining output, and nationalist demands for ever greater autonomy in the outlying Soviet republics.

Amid a flurry of calls for party consolidation and unity from Mr Gorbachev and his fellow party leaders, including leading conservatives such as Mr Yegor Ligachev, radicals in the party have warned that they are certain to walk out if sweeping democratic changes are not approved.

The chances of a deal between Mr Gorbachev and the reformers appeared to grow at the weekend, after a meeting between the Soviet leader and Mr Boris Yeltsin, the Russian federation president and his most radical critic.

Pro-democracy critics of the party establishment joined forces at the weekend to form a Democratic Unity bloc combining the Democratic Platform and Marxist Platform, two small minority groups among congress delegates.

Three key issues have to be decided by the party's 28th congress, held a year ahead of the normal timetable because of the accelerating political and economic crisis.

Mr Gorbachev and his allies are proposing a new party policy, abandoning all references to the class struggle, and even to Marxism-Leninism, and instead promoting the "needs of the individual," the sanctity of property, including private property, and the switch to a market economy.

They have put forward new draft rules, which allow far greater influence to grass-roots party organisations, and horizontal links as well as vertical links to promote greater democracy. However the draft is still rejected by party radicals because it maintains the principle of "democratic centralism" which enforces strict obedience to the decisions from the party leadership. Party factions would also be banned.

Finally, congress must elect a new party leadership, including the proposed new post of chairman, who would become the party leader instead of the general secretary.

Communist party's Waterloo, Page 12

European railways plan telecoms network

By Hugo Dixon in London

WESTERN Europe's railways are considering a plan to build a pan-European telecommunications network alongside their tracks to compete with the systems run by Europe's telephone companies.

The Union Internationale des Chemins de fer (UIC), the European railway club, has approached several private telephone companies – including Cable and Wireless of the UK, Britain's Racal Electronics and several US telecommunications carriers – with the idea. One possibility is that a private telephone company would provide its experience in running phone networks in return for taking a stake in the venture.

The railways have extensive telecommunications networks running beside their tracks. It would be fairly easy to upgrade these into a pan-European network because their tracks go into the centre of almost every town in Europe. They are used for signalling and internal communications.

A pan-European phone network run by the railways could bring down the prices of international calls throughout Europe, which are now between two and three times costs, by providing more competition on long-distance routes. However, such a plan is likely to be resisted by the phone companies, which in most countries are run as public sector monopolies.

Mr Peter Borer, British Rail's director of telecommunications, said the UIC had a working group which was expected to report on the project's viability in three to four months. "It is clearly very interesting to do something on a pan-European level," he said.

BR has already said that it wants to compete with British Telecom and Mercury Communications in the UK telecommunications market. It will be asking the Government to give it freedom to sell use of its phone network to the public when the BT/Mercury duopoly is reviewed in November.

BR's phone network has 2,000 kilometres of fibre optic cables, 150 computerised switches and 63,000 extensions. When the Channel tunnel is completed in 1993, BR's phone network will be connected to the networks of its counterparts in the rest of Europe.

WORLDWIDE WEATHER

		Y'day midday °C	°F			Y'day midday °C	°F			Y'day midday °C	°F			Y'day midday °C	°F
[illegible]				[illegible]	S	23	73	Madeira	F	22	72	Prague			
[illegible]				Dublin	C	17	[illegible]	Madrid	S	27	81	Reykjavik	S	13	55
[illegible]				Dubrovnik				Majorca	S	28	82	Rhodes	S	30	86
[illegible]				Edinburgh				Malaga	S	29	84	Rio de Janeiro		-	-
[illegible]				Faro	S	24	75	Malta	S	31	88	Rome	S	30	86
[illegible]				Florence	F	30	86	Manchester	C	13	55	Salzburg	C	19	66
[illegible]				Frankfurt	C	20	68	Melbourne	R	8	46	S'Francisco*	F	13	55
[illegible]				Geneva	F	21	70	Mexico City		-	-	Santiago		-	-
[illegible]				Gibraltar	S	29	84	Miami*	F	27	81	Seoul	F	27	81
[illegible]				Glasgow	R	12	54	Milan	S	28	82	Singapore	F	29	84
[illegible]				Guernsey	F	17	63	Montreal*	R	16	61	Stockholm	F	18	64
[illegible]				Helsinki	S	[illegible]	[illegible]	Moscow	C	23	73	Strasbourg	F	20	68
[illegible]				Hong Kong	C	[illegible]	[illegible]	Munich	F	21	70	Sydney	S	16	61
[illegible]				Innsbruck	F	[illegible]	[illegible]	Nairobi	F	24	75	Tangier	S	25	77
[illegible]				Inverness	C	[illegible]	[illegible]	Naples	S	32	90	Tel Aviv	S	28	82
[illegible]				Isle of Man	S	13	55	Nassau		-	-	Tenerife	S	25	77
[illegible]				Istanbul	S	30	86	Newcastle	C	14	57	Tokyo	C	22	72
[illegible]				Jersey	F	17	63	New Delhi	Dz	26	79	Toronto*	C	16	61
[illegible]				Johannesburg	S	11	52	New York*	C	19	66	Tunis	S	[illegible]	[illegible]
[illegible]				Las Palmas		[illegible]	[illegible]	Nice	R	27	81	Valencia	F	27	81
[illegible]				Lisbon	S	25	77	Nicosia	S	29	84	Venice	C	24	75
[illegible]				Locarno	S	23	73	Oporto	S	20	68	Vienna	C	23	73
[illegible]				London	F	21	70	Oslo	R	15	59	Warsaw	S	27	81
[illegible]				Los Angeles*	Fg	17	63	Paris	C	20	68	Washington*	F	23	73
[illegible]				Lux.Angeles				Peking	C	[illegible]	[illegible]	Wellington	C	11	52
[illegible]				Luxembourg	F	16	61	Perth	S	13	55	Zurich	F	18	64

C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sunny Sl-Sleet Sn-Snow T-Thunder
* Noon GMT temperatures

A taste for D-Marks

Continued from Page 1

"I never thought the state would allow such a thing," he grumbled.

Mr Fritz Hofer, another local resident, criticising the flood of tourist buses, said: "We have nothing against the opening between East and West, but I don't like the way it's been done."

As Mr Theo Waigel, the Bonn Finance Minister, entered a savings bank in East Berlin's Leipziger Strasse for a glad-handing midday inspection tour, a middle-aged man sitting at a nearby cafe whistled derisively.

One made an unflattering comparison with East Germany's former, unlamented Communist leader:

"It's the same circus as when (Erich) Honecker used to show up."

Mr Waigel, however, was in irrepressible mood, distributing bouquets of roses and freesias to the bank staff and thanking them for their hard work in doling out the D-Marks.

An 11-year-old East Berlin girl, Dana, shepherded in for a photo opportunity, was advised to invest her D-Marks in bonds from the German Unity Fund.

"What you invest now will be for Germany's future good," he declared.

Pathe sued by Time over MGM takeover

By Alan Friedman in New York

TIME WARNER, the US media and entertainment group, has launched a lawsuit against Pathe Communications for breach of contract, in a spectacular about-face that could sink Pathe's proposed $1.3bn takeover of MGM/UA, the Hollywood studio.

Time Warner was to have supplied Pathe with a crucial $650m loan towards the MGM/UA takeover, in exchange for obtaining the worldwide film and video distribution rights to Pathe and MGM movies and the United Artists library of film titles.

An angry Time Warner at the weekend accused Pathe of creating a "smokescreen" to hide a series of allegedly misleading statements. The company claimed Pathe had secretly sold $50m of film rights – including those for the forthcoming film of John Le Carré's The Russia House – even though these had already been contracted to Time Warner.

The US media and entertainment giant is seeking at least $100m in damages from Pathe plus court costs and punitive damages.

The Time Warner lawsuit, filed on Friday evening in the Superior Court in Los Angeles, comes nearly three months after Time Warner agreed to back Mr Giancarlo Parretti, the controversial Italian financier who controls Pathe.

Mr Parretti could not be reached for comment yesterday.

Mr Steve Ross, chairman of Time Warner, has come under a storm of private criticism in the film industry and his company has been placed on creditwatch by Standard & Poor's, the rating service, since it agreed to back Mr Parretti's tender offer for MGM.

Mr Parretti, who for months has claimed to be a personal friend of Mr Ross even though the two men barely know one another, has also been criticised around the world because of scepticism about the origin of his funds.

The Pathe chief, a former waiter from Orvieto in central Italy, was sentenced in April to nearly four years in prison after being convicted in Naples of fraudulent bankruptcy. He is appealing against the conviction and has denied all allegations about improprieties in the source of his funds.

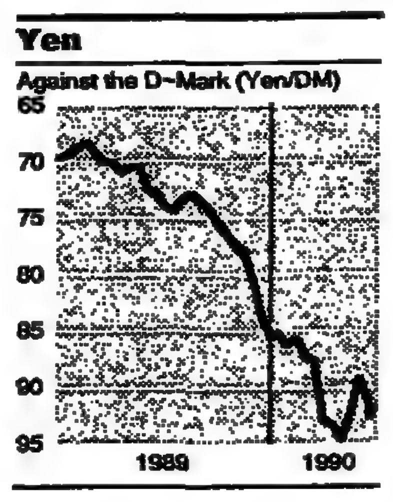
A highly placed individual close to Time Warner claimed that Pathe lawyers had sent "threatening letters" to Time Warner concerning its promised $650m loan. He also said Pathe had failed to supply promised legal and solvency opinions, had failed to come up with $600m of equity of its own for the MGM deal and stands in breach of three contracts:

- An April 9 contract, for Pathe and UA libraries that Pathe is alleged to have broken by its amended June 21 merger deal with MGM.
- An oral agreement giving Time Warner exclusive theatrical distribution for Pathe films.
- A March 14 home video rights deal that Time Warner says was signed at Mr Parretti's personal request.

THE LEX COLUMN

When interest rates are rising

German monetary union is one of the most momentous events for Europe's financial system since the war. It also poses questions for the world economy as a whole: above all, how much a unified Germany will add to the demand for investment funds. The assumption in the markets has been that demand for industrial reconstruction will be immediate, not only in Germany but in eastern Europe as a whole. There could be an element of wishful thinking here. The investment upsurge of the late 1980s in most of the developed nations may now be coming to an end. A fresh burst of investment in the east would be a very handy stimulus for continued growth in the world economy.



Over the long haul, funds will not be invested in the east unless the returns on capital invested there are at least as high as elsewhere. This is by no means a foregone conclusion. East Germany will start with three advantages over other developing countries: a hard currency, a relatively disciplined banking system imported from Frankfurt, and the Bundesbank to police inflation. Manufacturers like Mannesmann have have seen their foreign earnings suffer lately because of the economic turmoil in Brazil, in the past a frequent recipient of West German capital. With that experience behind them, it is easy to see why Leipzig looks a better bet than Sao Paolo.

But the case is not entirely proven. In particular, all the publicity about joint ventures with East Germany's former state combines may mislead some into thinking that every business will want to join the *Drang nach Osten*. Banks and insurers are keen to sign up customers; but those are businesses where capital investment is modest, overseas competition muted and quasi-monopoly profits still possible. Some mainstream industrial companies, like the car-makers, may rush to invest; but chemical and steel companies are much more wary. For most, the decision whether or not to go east will rest on labour costs.

The evidence here is patchy. If post-union unemployment rises 14-fold in East Germany to 1.8m, as the West German economics ministry predicts, it should in theory hold down wage rates. But the evidence of regional policy in the UK, for example, is that an area can have high local unemployment without the price of labour falling. And a key figure to watch in Germany over the coming months will be the level of migration from east to west. It may be that workers in Dresden will simply not tolerate earning less for the same hours than those in Dortmund.

From an investment viewpoint, two more factors muddy the waters. One is the resilience of West German equities. Since February's collapse, German benchmark bond yields have stayed in a trading range between 8.5 per cent and 9 per cent. Equities, by contrast, are still up by nearly a tenth since the start of the year. This could be read as a very positive signal about the long-term benefits German unification might bring for corporate profits. Or it might just reflect the fact that West Germany's GNP is still growing in real terms at 4 per cent per annum, with the prospect of a sudden one-off uptick in profits in consumer goods and construction.

That leaves politics. If unemployment rises too sharply in the east as pan-German elections draw near, the ruling coalition may have an incentive to offer more generous social benefits. The recurring danger in the 1990s from an investors' point of view is that German governments will try to head off discontent in the east by shrinking the share of the economy that goes into corporate coffers.

Japan

In the midst of the speculation about German unification, it has gone almost unnoticed that Japan is also on the brink of further monetary tightening. In some respects this is even more worrying, since it means that the world's only other major lender is intensifying the competition for global savings. This limits the potential for lower US interest rates, and removes one of the main props underpinning the near one third rise in Wall Street over the past year. Indeed, if the sharp drop in global bond markets in the first quarter really was triggered by the collapse in the Japanese bond markets – rather than worries about eastern Europe's potential appetite for extra capital – events in Tokyo over the next few months could well prove as important as those in Germany.

The immediate concern for Japan continues to be the weakness of the currency. Its 10 per cent fall against the dollar in early spring torpedoed the local bond market, which in turn precipitated the 28 per cent fall in the Nikkei. The yen's subsequent modest recovery against the dollar has not been matched by the same sort of performance against the D-Mark. Similarly, the recent recovery in the stock market has been patchy.

The reasons for the yen's continuing weakness are puzzling. The Japanese economy is growing faster than expected and considerably faster than West Germany's. Its balance of payments surplus is set to grow to $60bn next year – roughly matching West Germany's – and its forecast inflation rate is more than a third below the OECD average. Its double digit money supply growth is the only area where it is out of kilter with its peers.

The hesitant recovery in the Japanese bond market in the early part of the second quarter has evaporated and yields are back to where they were when the Nikkei was testing the 28,000 floor in early April. Meanwhile, after three months of stability, short-term Japanese interest rates are climbing again. This could simply be a reflection of seasonal end-quarter pressures. But that was the explanation offered last time, before it became clear that the authorities had tightened policy another notch. Given the performance of the yen, it is hard to see how the Japanese could ignore any West German tightening; and what is happening in the Tokyo money markets may just be a precautionary move. But it is upsetting the bond markets nevertheless.

Given that West Germany and Japan have both been growing considerably faster than the OECD average and are likely to continue doing so, any further tightening need not necessarily upset the equity markets. Indeed, if the result is a weaker dollar this should help rectify the chronic trade imbalances among the world's three main trading nations. But the main condition remains that the yen should turn the corner.

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FINANCIAL TIMES
COMPANIES & MARKETS
Monday July 2 1990

INSIDE

De Benedetti learns patience

Carlo De Benedetti (left), the Italian financier, will have to cultivate patience over the next six months. His contract to buy a key 25.7 per cent block of shares in Italian holding company Amef comes into effect in January, and he will probably have to wait until then to consolidate his position at Mondadori, the leading Italian publishing group, which Amef controls. Page 18

Mexico sells 60% of Entel

Mexico has sold 60 per cent of Entel, the state-run telecommunication network, to foreign consortiums. Meanwhile, draft legislation submitted to Mexico's Congress has limited foreign participation in 18 Mexican banks due for privatisation to 30 per cent rather than the 34 per cent previously indicated. Page 18

Eurobonds: the story so far

Total volume of new Eurobond issues is down $40bn from last year, at just over $80bn, according to preliminary data for the first six months of this year from IFR Bondbase. While issues in European currency units have surged, the Japanese equity-linked sector has been eroded. Page 16

Lessons from the World Cup

The sight of the Italian or German football team elegantly moving the ball up the field as a team, should have given the business-minded TV viewer food for thought over the last few weeks. Although many companies are now aware of the importance of teamwork, structures of motivation and reward still, by and large, relate to individuals or the company as a whole – and not to smaller units. Page 32

Market Statistics

Companies in this section

Philips unruffled by energetic reformer

Jan Timmer, the group's managing director, today unveils his strategy for the future, reports Ronald van de Krol

For a company town where the main employer is in the throes of a crisis, the Dutch town of Eindhoven awaits today's extraordinary shareholders' meeting at Philips, the Dutch electronics giant, with surprising calm.

During the meeting, Mr Jan Timmer, the new president, will attempt to regain the confidence of the financial markets after two months of unprecedented upheaval at the company, which was sparked by disastrous first-quarter figures released on May 3 and the resignation of its president, Mr Cor van der Klugt, two weeks later.

At any other company, this might be enough to make people brace for widespread job losses. But the mood at the Netherlands' largest private-sector company is one of quiet concern rather than intense worry. "Philips doesn't panic. That's not part of its culture," one executive explained.

Nevertheless, today's extraordinary meeting, which was called to approve Mr Timmer's appointment, is clearly important to Eindhoven. Some 30,000 jobs in the town depend on Philips, an employer that until recently was able to offer school-to-grave employment.

The local radio station, for instance, will be covering the proceedings in an uninterrupted, two-hour live programme. And for the first time in years, Dutch unions have bought a token amount of Philips shares so that they too can hear Mr Timmer unveil his strategy.

One of Mr Timmer's main challenges will be to instill a sense of urgency which is still mostly lacking in Eindhoven, where Philips' slow, bureaucratic manner is legendary. Mr Timmer is credited with being an energetic reformer, but his drive for change could meet resistance lower down the hierarchy.

Already, the company has said 1990 profit will be "very low" compared with the Fl 792m ($422.6m) posted in 1989. In the first quarter alone, net operating profit slumped to just Fl 6m from Fl 223m in the same period last year. The company, which makes products ranging from light bulbs to compact disc players, has annual sales of nearly Fl 60bn.

Because of its paternalistic past, Philips can draw on a deep reservoir of trust and loyalty among its Dutch employees, particularly in Eindhoven.

But recent events are beginning to erode blind faith in Philips' management, union officials believe. "A lot of people are saying that it's about time that the top echelons were made truly accountable for the results they produce," said Mr Joop de Graaf, an official at the white-collar union, the Federation of Higher Philips Personnel.

Philips workers at Eindhoven: calm over prospect of cuts

Still, the atmosphere among Philips' Eindhoven workforce is generally confident. "People are expecting some jobs to go, but the ones that remain should be secure," according to a department head in the lighting division. "Nobody is expecting a great wave of job losses."

Union officials, however, are less sure. Mr Jan Cuperus, an official of the blue-collar union Industriebond FNV, said that lower and mid-level production workers and managers were probably right to think they wouldn't be affected unless they worked in an area which Philips might divest or hive off.

"Another category of people who feel pretty secure are people in indirect, overhead jobs," Mr Cuperus said. "I think they may be mistaken."

Part of the reason for the calm is that Philips has cried wolf so often in the past: the company spent much of the 1980s reorganising its various divisions without a lasting improvement for the group as a whole and without large-scale job losses.

Other reasons include the generous severance pay and other conditions which Philips makes available whenever jobs are cut.

Until now, the pace of reorganisation has been slow. Mr van der Klugt's goal of a "leaner and meaner" Philips was still far from being realised by the time he was forced to retire a year ahead of schedule.

Mr Timmer, who is expected to step up the tempo, comes to the task with a reputation as an astute reshaper of ailing businesses.

At Philips' consumer electronics division, his energetic cutting of organisational flab won him the grudging respect of the unions and nicknames, including "the butcher" and "Hurricane Gilbert", after the tropical storm that swept the Caribbean in 1988 while Mr Timmer was shaking up his managers and workforce.

Mr de Graaf of the white collar union cautions against expecting Mr Timmer to work miracles on his own. "One man can't change the corporate culture. The key question is: can he assemble like-minded people around him in the group management committee and can he transmit his aims to the next highest layer of senior managers?"

The unions are prepared to co-operate in further reorganisations, provided the company puts forward a comprehensive view of where it is going. Mr Wim ter Welle, an official of the white-collar union, said, "The current crisis has brought home to us that Philips can actually fall to pieces. This is something we're realising for the first time."

Pushed into – er – leadership

By Anthony Harris in Washington

Don't expect too much from the re-started US budget summit. It will work, up to a point. The projected deficit will be cut by $50bn. But that is only half what is required under the present law, and is further likely to contain a lot of questionable small print.

Further, since the whole savings and loan clean-up has been left off-Budget (quite rightly, from an economics point of view) the flood of US bonds on offer may not abate at all. In short, it's ho-hum time all over again.

For a few hours last week, things looked more hopeful. The President's written statement admitting the need for "higher tax revenues" looked like a spontaneous act of leadership. It was very Bush-style leadership, a little like an embarrassed senior at the Prom inviting his first partner to the floor, all downcast eyes and tangled feet. But it did seem to show political courage.

That flattering vision of events soon faded, though. At first the White House refused to follow through with any comment whatever; then the Chief of Staff, Governor Sununu, tried to persuade the angry Republican right that the President hadn't really said anything. You can't lead the charge with a cry of "Um . . .er."

Then the leaks began. The President hadn't moved; he was pushed. The Democrats were so angry at the belated White House budget proposal, an attempt to raise $50bn from widows and orphans (with a small contribution from defence) that the House Speaker, Mr Thomas Foley, threatened to cancel the next summit session.

Meanwhile came the news from Tokyo: the Japanese had offered satisfactory adjustments, but were refusing to sign the Structural Adjustment Initiative until they heard news of real changes from Washington.

So the President had to move to save his Administration's two most important economic policies; but he still tried to fudge it. He hoped that the statement would be taken as a bulletin on compromise, with its talk of spending cuts and reforms in the budget process. But that wasn't the conclusion everyone drew – not when he used the T-word.

So now we have St Sebastian Bush – "Arrows have been flying front, back, sideways, but that is what I get paid for," as the victim put it at his Press Conference of Friday.

This was when he decided, at length, to say that the statement was not a just a clarification, but an act of leadership.

Too late. Pinocchio Bush, his critics in the Press responded.

Lip jokes and nose jokes will be worked dry this season. Yet the implied charge, that Mr Bush knew he was lying when he made his no-new-taxes pledge in 1988, is probably unfair.

It is true that it was launched at the suggestion of Governor Sununu, in a desperate attempt to stop what was at that stage a Dole bandwagon in the Presidential primaries; the strategy had been worked out by Dr Michael Boskin, who is now the President's chief economic adviser, and Dr Boskin is a persuasive man.

On modestly favourable assumptions, it did look do-able. "I was presented with new facts and I'm going to do as Lincoln did: think anew," the President explained.

It is true that the extent of the economic slowdown this year does seem to have surprised everyone here (though readers of this column may wonder why the economy has not slowed further).

Further, the S&L clean-up – even if it is off-Budget – does make it much harder to reduce long-term interest rates, because a lot of borrowing is involved. Commentators here seem convinced that it is only high interest rates that are preventing a full-hearted resumption of growth; and this is the first trap for the coming budget settlement.

It seems likely that the Budget Director, Mr Richard Darman, will forecast that the $50bn cut will bring interest rates down quite steeply, and that this will raise the growth of output and revenues enough to produce a respectable outturn. A British commentator is bound to suspect that this is wrong on both counts – that interest rates will make a rather limited response, since $50bn is not much more than a large drop in the bucket of world credit demand; and that it will not make very much difference whether they fall or not.

It is a matter of what Keynes called animal spirits. British borrowers seem to have drunk bulls' blood, and cannot be restrained. But American borrowers are either discouraged by their present debt burden (consumers), under suspicion from the banks, or facing glutted domestic markets (housing, office space, cars).

There is hardly enough animal spirit to take the skin off a rice pudding; and Keynes had the phrase for cutting rates in such a market: "Pushing on a string."

Meanwhile, the economic news gets worse. The Conference Board index of consumer confidence, which had previously been suspiciously robust, has suddenly dropped five full percentage points. New house sales were reported as up a miserable 0.4 per cent in May (well within the measurement error); but that was only thanks to a huge 3 per cent downward revision of previously reported sales in April. And there are now suspicions of a huge liquidity problem (to use a flattering phrase) in the insurance industry.

Meanwhile, the President continues to talk of "taxes that promote growth." What he means is his treasured cut in the capital gains tax. This may or may not help a few start-ups; but the idea touted here that it will increase revenue, which will be built into the budget projections, is almost certainly wrong. It is an open invitation to tax avoidance: and while projections and past experience do show a temporary rise in revenue from CGT, there are no figures for the consequential loss in income tax revenues. This is not as important in the context of a $50bn package as it was in the proposed 1990 budget, but it may still account for about 15 per cent of the projected "savings."

Forget it. The cut remains contentious, and it will be more than a non-event if it spoils the chances of genuine bipartisan progress on the things that do matter, notably the reform of the budget process itself.

Consensus may be preserved if the President is prepared to buy his cut with some rise in high bracket income tax rates, as rumour suggests (rumour denied by Mr Bush on Friday, but the bargain has not yet been struck). But it is still easy to see why the Democratic whip, Mr Richard Gephardt, has warned that "the hard part is yet to come." And Mr Bush thought it was those arrows.

Economics Notebook

First world threat to free trade

THERE are so many momentous events taking place in the world economy at present, that it is hardly surprising that worries about the future of the world's trading system have failed to capture the headlines.

But there is a growing concern among trade policy makers that the world's multilateral trading system is under threat and that the world's richest countries are responsible for this state of affairs.

The Uruguay Round of trade liberalisation talks is said to be in serious difficulties following the emergence at the end of May of important differences between the European Community and the US over reducing agricultural support. It will be up to the leaders of the Group of Seven big industrial nations to try and repair the damage at next week's world economic summit in Houston.

But the problem of protectionism in the industrialised world is very deep seated, as Mr David Henderson, the head of the Economics and Statistics Department of the Organisation for Economic Cooperation and Development (OECD) made clear in Paris last week.

Mr Henderson made the startling claim that developing countries are leading the way to more liberal trade. Commenting on the past two to three years, he said, "for the first time in economic history, the main impetus for freer trade has come, not from the OECD countries which broadly accept market norms, but from countries whose past tradition had been to question or reject them."

Mr Henderson said only four of the OECD's 24 industrialised member countries can claim to be more liberal traders now than at the beginning of the 1980s. These are Australia, Japan, New Zealand and Turkey.

Among the heavily-indebted developing countries, six – Bolivia, Costa Rica, Jamaica, Mexico, Morocco and Uruguay – have trade regimes that are more liberal than 10 years ago, before the international debt crisis played havoc with their economies.

Venezuela, Ghana and Indonesia have moved significantly down the road towards freer trade as have South Korea and Taiwan among that small group of countries now known as the dynamic Asian economies.

Mr Henderson admits that the record of the major industrial countries is not all bad. Britain, for example, has done away with many voluntary agreements to limit imports. Sweden has said it will not enter the next Multi-Fibre Arrangement regulating imports of clothing from the developing world.

But he says that the European Community must bear much responsibility for the proliferation of protectionism while it is the US that has the worst record for devising new specific and discriminatory non-tariff barriers to trade.

Industrial Muddle

The irritation expressed by Mr John Major, Britain's Chancellor, over the confusion that arises from the country's official statistics deserves nothing but sympathy.

Last week's release from the Central Statistical Office on the trading and financial position of Britain's industrial and commercial companies in the first quarter was notable for the £8bn ($14bn) "balancing item" needed to reconcile the figures for company outgoings and how they were financed.

The words "balancing item" are a statistician's way of saying "black hole."

It is anybody's guess where the £8bn belongs. The significance of last week's £8bn figure was that it was larger than any other in the series of transactions leading to the company sector's £3.77bn first-quarter net borrowing requirement and in the data showing how the borrowing requirement was financed.

The only way that the company statistics made sense was to put them in the context of recent anecdotal evidence and data from financial reports. Together, these suggest that protracted high interest rates are hitting British companies in very different ways just as households are variously affected.

The CSO's first-quarter aggregate figures showed a large, provisional £7bn financial deficit and strong growth in gearing at the same time as sharply higher dividend outlays and rising gross fixed capital formation in the company sector.

This could be statistical backing for the every-day observation that heavily-indebted, sterling-based firms in sectors such as construction, retailing and advertising that depend on the British market are being squeezed badly. By contrast, recently, companies with strong foreign business appear to have benefited more from the relatively low sterling exchange rate than they have suffered from high interest rates.

Whether the exporters continue to enjoy relative prosperity remains to be seen. The recent rise in sterling's value in expectation of Britain joining the exchange rate mechanism of the European Monetary System and ERM membership itself will increase the pressure on exporters to control costs in general and wage costs in particular.

Peter Norman

THIS WEEK

THE ATTENTION of the world's financial markets is likely to shift quickly from Europe to North America this week.

After Germany's economic and monetary union at the weekend, the markets are likely to focus on the meeting today and tomorrow of the Federal Open Market Committee in Washington and the release on Friday of US employment data for June.

The FOMC, the Federal Reserve's main policy-making body, meets in the wake of last week's announcement by President George Bush that "tax revenue increases" should play a part in solving the US budget deficit problem. Although a deficit reduction package may be some time away, the announcement will increase pressure on the Fed to ease its monetary policy.

Analysts will be looking closely at today's National Association of Purchasing Managers' index for June and Friday's June payroll and unemployment figures to see whether developments in the US economy support any move to lower interest rates.

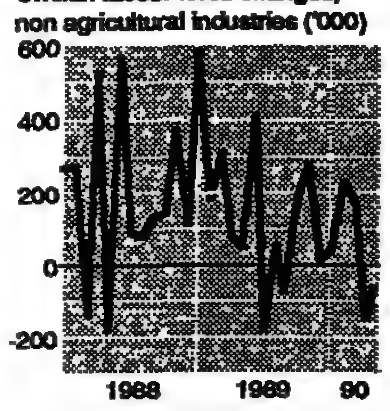
According to Mr Geoffrey Dennis, international economist of James Capel in London, the Fed is likely to be unsympathetic to rate cuts as long as unemployment stays around May's low 5.3 per cent level. The consensus of analysts' forecasts compiled by MMS International, the financial research company, is for a rise in non-farm payrolls and a civilian unemployment rate of 5.4 per cent in June.

Several West German statistics are expected this week though with no fixed dates. Figures (with MMS consensus figures in brackets) include: May industrial production (up 0.3 per cent), May manufacturing orders (up 1.5 per cent), May trade and current account balances (DM9.8bn and DM8bn respectively).

Other statistics and events include:

US employment

Civilian labour force changes, non agricultural industries ('000)



Today: US, National Association of Purchasing Managers index for June (50.5), May construction spending (-0.8). UK, Credit business in May (£160m net rise), final retail sales in May. Bundesbank president Mr Karl Otto Pöhl gives speech on European Monetary Union in London. Canada, national day holiday.

Tomorrow: US, May factory orders (up 2.1),

UK, June official reserves (up $100m), Mr Pöhl gives evidence on EMU to House of Lords Committee.

Wednesday:UK, Mr John Major, the Chancellor, chairs National Economic Development Council. US, Independence Day holiday. West Germany, June unemployment (down 7,000).

Thursday: UK, May housing starts and completion. Canada, June foreign exchange reserves (down US$300m).

Friday: US, non-farm payrolls, non-farm payrolls ex-census (up 130,000), manufacturing payrolls (down 10,000), civilian unemployment (5.4 per cent), average earnings (up 0.3) all for June, Release of FOMC minutes from May meeting. Canada, June unemployment rate (7.8 per cent), June employment growth (-0.2 per cent). UK, Chancellor John Major gives speech to Welsh industrialists on the hard Ecu.

INTERNATIONAL CAPITAL MARKETS

INTL CREDITS

Thyssen deal underlines shift to Europe

THYSSEN, the German steel and trading company, is raising a large credit from international banks, following Volkswagen and BMW.

The company is establishing a two-part financing: a German bank group will be put together by Deutsche Bank, while the group of international lenders will be led by J.P. Morgan. Bankers have been asked not to talk about the deal so details are vague. But one described it as a "carbon copy" of the VW credit, though it is not clear whether Thyssen is seeking as much as the $2bn raised by VW.

The credit underlines the shift in focus of syndicated lenders away from the US and UK, which until recently provided much of their business.

But while continental Europe provides hope for future business, half-year figures confirm expectations of a drop in business. Syndicated bank lending volumes in the Euromarkets are estimated to have dropped by about 30 per cent in the first half-year against last year's first half.

Despite this, some deals have proved extremely popular. Hanson Industries, the US arm of Hanson of the UK, has completed a $2.6bn credit, part of which will refinance its acquisition of Peabody Holding, the US coal mining concern. Forty-three banks offered around $6bn for a margin over Libor of 50 basis points. The credit was arranged by Chemical Bank, with Citicorp and National Westminster Bank as co-arrangers.

NatWest has completed syndication of a US$750m project financing for the Deschambault aluminium smelter project in Quebec. The financing was underwritten by NatWest and Bank of Montreal.

Midland Montagu is also said to be embarking on a first round of syndication of the credit raised last year by WPP to finance its takeover of the Ogilvy Group. The financing is now said to be something less than the $800m or so originally raised from underwriting banks.

Stephen Fidler

INTERNATIONAL BONDS

Ecu issues rise as Japanese equity-linked sector falls

A SURGE of issues in European currency units (Ecus) and the erosion of the Japanese equity-linked sector have been the significant trends of Eurobond market issuance this year.

Total volume of new issues is down $40bn from last year, at just over $80bn, according to preliminary data for the first six months of this year from IFR Bondbase. This drop is largely due to the cut-off in supply of dollar-denominated Eurobonds with equity warrants attached. The four leading Japanese securities houses were forced to stop churning out equity-linked issues, when the slump in the Japanese stock market earlier this year caused prices in the warrants to dive.

Only 23 Eurodollar bonds with equity warrants, with a value of just under $6bn, had been launched when supply was halted in March. In the first six months of last year, the sector absorbed 128 new issues totalling $40.5bn. With issuance set to resume this month, this pattern could change. But the effects of equity warrant trading losses sustained by numerous houses, and the decline of new issues profits which has hit most underwriters may continue to take their toll.

The change in patterns of issuance has blighted the performance of most of the Japanese securities houses, which lost the mainstay of their new issues business.

Nomura, the most successfully diversified of the Japanese securities houses, has comfortably held on to its position at the top of the Eurobond league table, although the volume of new deals it has launched is reduced. It tops the IFR Eurobond league table with a market share of 9.5 per cent, down from 16.2 per cent last year. It launched 48 new issues totalling $7.7bn, compared with 85 new deals worth just under $20bn at this stage last year. Nikko, Daiwa and Yamaichi, the other three leading Japanese securities firms, have all ceded their places in the top four. Daiwa, helped by a strong showing in the Euroyen sector, slipped only as far as ninth place, while Nikko dropped to 13th and Yamaichi fell to 27th position.

Nomura also topped the league table of plain vanilla Eurobonds, with a market share of 6.8 per cent, fractionally ahead of Deutsche Bank. (The IFR data excludes certain "global" issues which are not technically Eurobonds and which were mainly placed in the US.)

TOP EUROBOND LEAD MANAGERS

	First half of 1990				First half of 1989			
Manager	$bn	Rank	%	Issues	$bn	Rank	%	Issues
Nomura	7.68	1	9.44	48	19.56	(1)	16.23	85
Deutsche Bank	4.78	2	5.88	27	4.78	(7)	3.95	25
CSFB	4.67	3	5.73	25	5.88	(5)	4.87	35
UBS	4.09	4	5.02	15	1.94	(14)	1.61	17
Paribas	3.65	5	4.48	15	3.30	(11)	2.73	25
J.P. Morgan	3.65	6	4.48	17	4.87	(6)	4.04	23
Salomon Brothers	3.19	7	3.92	6	1.89	(15)	1.57	15
Daiwa	2.93	8	3.60	25	9.12	(3)	7.56	48
Goldman Sachs	2.87	9	3.52	11	2.77	(12)	2.29	22
Morgan Stanley	2.73	10	3.36	16	3.49	(9)	2.90	28
IBJ	2.64	11	3.24	24	2.11	(13)	1.75	27
Merrill Lynch	2.38	12	2.92	17	3.32	(10)	2.76	28
Nikko	2.08	13	2.56	11	11.80	(2)	9.79	33
Crédit Lyonnais	2.07	14	2.54	13	1.84	(16)	1.53	13
Bankers Trust	1.82	15	2.24	24	3.66	(8)	3.04	49
Commerzbank	1.77	16	2.18	10	0.90	(31)	0.75	9
CCF	1.71	17	2.10	12	0.65	(36)	0.54	7
Hambros Bank	1.60	18	1.96	21	1.74	(17)	1.44	27
Baring Brothers	1.50	19	1.84	8	1.13	(24)	0.93	6
San Paolo Bank	1.49	20	1.83	4	0.65	(35)	0.54	5
Industry totals	†81.43			576	120.52			846

† Preliminary Figures - Full credit to book runner

Source. IFR BONDBASE

Meanwhile, new supply of Ecu Eurobonds has virtually doubled so far this year.

New issues totalling $11.3bn were launched in the first six months of 1990, up from $6.5bn during the equivalent period last year, according to data from IFR Bondbase.

Institutional investors have at last started to buy Ecu bonds in earnest, spurred by the creation of large benchmark issues as well as by the Ecu's increasing political and economic significance.

Liquidity in the sector has been boosted by a series of sizeable issues by big sovereign and supranational agency borrowers like Italy and the European Investment Bank. The average issue size swelled, as the proportion of smallish corporate issues diminished, so that the number of individual deals actually declined to 53 from 60 last year.

Those houses which have long been vaunting the development of the Ecu bond market reaped the rewards. Paribas jumped to 5th place from 11th overall, and Crédit Commercial de France improved from a poor 36th to a creditable 17th, for example. Paribas continues to dominate the sector, commanding an impressive 28 per cent market share so far this year. Union Bank of Switzerland's overall position, up 10 places to 4th, was boosted by its participation in the growing market for asset-backed securities as well as its strength in Ecu.

Meanwhile, the increased role of institutional investors was also reflected in the lower volume of transactions in the traditional "retail" currencies – high coupon sectors such as Australian and Canadian dollars, which are mainly sold to continental retail investors who like high-yielding paper.

The number of new issues in Australian dollars fell to 47 issues totalling under US$2.5bn, half last year's volume of 82 offerings worth close to US$5bn.

Most of the funds from the large volume of Australian dollar Eurobonds which have been redeemed so far this year have not been reinvested. Hambros maintained its commanding position, launching a third of the market's new issues.

The Canadian dollar sector, stymied by economic and political developments and a reverse of a trend towards institutional participation, sank even further.

Only 27 new issues worth US$2.3bn emerged, a third of the previous years US$6.6bn of issues.

The top lead manager in the sector, Credit Suisse First Boston, launched only four new deals, and Canadian firms slipped out of the overall rankings.

The sterling sector held up surprisingly well, considering the poor condition of the underlying gilts market for much of this year.

The market absorbed a supply of 53 issues totalling $11.2bn, down fractionally from last year's 63 issues worth $11.4bn, with CSFB heading this sector also.

The volume of D-Mark bonds was marginally higher, at close to $10bn, up from just over $8bn. Issuance in lire nearly doubled at $2.5bn, while French franc Eurobonds rose to $3.4bn from $2.6bn last year.

Tracy Corrigan

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Metropolis of Tokyo♦	175	1995	5	9⅛	101.80	IBJ Int.	8.666
Thermedics Inc.(d)§♦	35	1998	8	6½	100	Lehman Brothers Int.	6.606
Skand. Enskilda Banken♦	100	1996	5.6	9.05	101.725	Mitsubishi Trust Int.	8.628
Ford Motor Credit♦	200	1993	3	9	99.80	Morgan Stanley	9.079
CANADIAN DOLLARS							
Deutsche Bank Finance♦	100	1995	5	11½	99⅞	Deutsche Bk Cap.Mkts	11.534
AUSTRALIAN DOLLARS							
Govt. Insurance Office NSW♦	65	1993	3	15½	101.95	Westpac Banking	14.651
Austria, Republic of♦	100	1994	4	14½	101¼	Citibank AG	14.399
D-MARKS							
Banco Nac. de Comerceo♦	100	1995	5	11	100	Swiss Bank Corp.	11.000
SWISS FRANCS							
American Health Prop.(a)§♦	50	2000	-	8½	(a)	S.G. Warburg Soditic	-
McDonald's Corp.★★♦	65	1993	-	7⅛	101½	Wirtschafts-und Privatbk	6.558
Mitsuba Electric Mfg.★★♦	50	1995	-	7⅝	101	Wirtschafts-und Privatbk	7.379
STERLING							
Cardiff Auto.Rec.Secs.(h)♦	328	1995	3½-4	25bp	99.93	Goldman Sachs	-
Swedish Export Credit(i)♦	20	1991	1	22	101⅛	Midland Montagu	20.642
J. Sainsbury♦	100	1995	5	12¾	101.40	S.G. Warburg Secs.	12.358
Anglian Water(k)♦	100	2008	18	5⅛	101.703	J.H. Schroder Wagg	4.980
FRENCH FRANCS							
Renault Credit Int.♦	700	1993	3	10½	101⅜	BNP	9.946
Interfin. Cr.National(e)♦	500	1996	6	Zero	100	BNP	-
EIB(f)♦	1bn	2000	9½	9⅞	100.20	Credit Lyonnais	9.822
Cie Generale des Eaux(l)♦♦	1.5bn	1998	7½	6	FFr2850	Societe Generale	-
AUSTRIAN SCHILLINGS							
Austrian Industries(b)♦♦	3bn	1995	5	6	100	Creditanstalt-Bkverein	6.000
Austria, Republic of(c)‡♦	3bn	1996	6	-⅛	100	Deutsche Bank Austria	-
FINNISH MARKKA							
Postipankki♦	200	1992	2	13½	101⅛	Postipankki	12.827
Kansallis-Osake-Pankki♦	300	1995	5	13⅜	101⅛	Kansallis-Osake-Pankki	13.055
LUXEMBOURG FRANCS							
Cregem Finance NV★★♦	900	1996	6	9¼	102	Cregem Int. Bank	9.300
YEN							
Asahi Breweries♦	20bn	1995	5¼	7	101.80	Daiwa Europe	6.574
Cariplo, London Branch♦	5bn	1997	7	6.8	101⅝	Mitsui Trust Int.	6.504
Asahi Breweries(g)‡♦	30bn	1996	6	-45bp	100.20	Nomura Int.	-
Finland, Republic of(j)♥♦	15bn	1997	7	8	100.35	Nomura Secs.	8.091
Finnish Export Credit(j)♥♦	30bn	1997	7	7	95.80	Nomura Secs.	7.941
Ind. Dev. Bank Turkey★★♦	10bn	1998	8	7½	100	Mitsui T'yo Kobe/Nikko	7.641
Bank of Greece♦	60bn	1997	7	7.4	101	Nomura Secs.	7.346

★★Private placement. ‡Floating rate notes ♦Variable rate notes. ♥Reverse dual-currency bond. ♦With equity warrants. §Convertible ♦Final terms. a) Dual-currency convertible. If not converted repayment in US$ at $5000 per SFr5000. Conversion price: $25⅞. Exchange rate SFr1.41 b) "Going public" bond with equity warrants. Warrant holders can buy shares at 95% of initial public offer price at any time during the 13 months after public listing. If bond holders choose not to take warrants, the bonds will be repaid at 108½. If no public offering, bond will be repaid at 116.5 c) Coupon pays ⅛% under 3-month Vibor. Minimum coupon 3½%. Call after three years at par. Sch2bn aimed at international investors. d) Conversion price. $15⅝. Conversion premium 10.6% e) Redemption linked to CAC-40 stock index. f) Fungible with existing FFr1bn bond launched in January. Purchase fund. Non-callable. g) Coupon pays 45bp under 6-month Japanese long-term prime rate. Put July 1995 at par. Non-callable h) Coupon pays 25bp over 3-month Libor. Fixed re-offer price. i) Redemption linked to £/DM exchange rate. j) Principal payments in yen, interest in A$. k) Linked to index loan stock due 2008. Non-callable l) FFr1.5bn of total of FFr4.8bn aimed at international investors. One warrant per bond, two warrants per share at FFr3200 per share. Exercise period August 1990 to June 1993. Note: Yields are calculated on AIBD basis

Frankfurt launches recalculated Fibor

THE West German domestic money market today opens with a new reference rate that brings it in line with international conventions, in a move to strengthen the competitive position of the comparatively backward onshore market.

The change, timed to coincide with German monetary union, symbolises a growing recognition that Frankfurt habits will have to change as mounting borrowing requirements to finance German unity place heavier demands on the local capital markets.

The Frankfurt Interbank Offered Rate (Fibor) will be constructed in broadly the same manner as Libor, the daily London reference rate – with the old Fibor continuing for current contracts, such as floating-rate notes recently issued by the Government.

Accrued interest for the new Fibor will be worked out on a 365-day year, instead of as previously, when each month was treated as having 30 days. The markets will also move to the usual two-day, instead of same day, settlement.

Previously quoted only for three- and six-month deposits, Fibor will now be available for term deposits between one and 12 months. Moreover, the group of reference banks has been expanded to 19 from the current 12, and will include Chase and J.P. Morgan and the French Société Générale.

Mr Norbert Jochem of BHF Bank, the Frankfurt merchant bank, who is also an official of the Frankfurt interest group promoting the local money market, argues that Fibor will therefore be more representative than Libor, which is taken from a group of eight reference banks in London.

The inadequacies of the domestic market were highlighted in March when the first floating-rate paper auctioned by a government agency, the German railways, was priced over the London reference rate, rather than Fibor. Other changes are still required before a flourishing domestic money market can be created. Turnover tax is to be abolished next year.

Katharine Campbell

INTERNATIONAL CAPITAL MARKETS

UK GILTS

'Better to travel than to arrive . . .'

IN A MARKET as thin as the one for gilt-edged securities, where price movements have recently been driven largely by gossip and rumour, it is not hard to spot some of its wilder flights of fancy.

As the market becomes ever more dogmatic in its belief in the virtues of entry into the exchange rate mechanism of the European Monetary System, it could be labouring under its greatest delusion. ERM entry is the bedrock on which the current value of the gilts market is founded. Prices in the 10-year area have risen by about 80 basis points in the last month on the back of ERM prospects, which could be worth a further 20-basis point rise.

However, in its enthusiasm for joining the ERM, the market is divorcing itself from the realities of the UK economy.

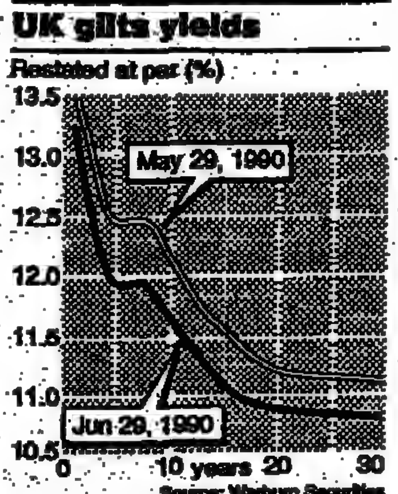
Real disposable personal income is growing at an annual rate of 8 per cent and consumption could continue to pick up for the rest of the year.

If judged on UK economic fundamentals alone, gilts are looking extremely expensive. A yield for 10-year gilts at around the 12.2 per cent level looks a lot more realistic if ERM entry is discounted.

The market insists on regarding ERM as a panacea for the UK's economic ills. In its blinkered enthusiasm for jumping in with the rest of Europe, the market has closed its mind to any potential negative effect this might bring with it. Indeed, a look at the strength of the French economy points to the benefits of being inside the ERM.

UK gilts yields

Restated at par (%)



Source: Warburg Securities

After 10 years of economic austerity inside the ERM, it is enjoying the fruits of its initial sufferings. Bond investors have seen the yield spread between French OATs and 10-year German Bunds narrow below 50 basis points in recent months – before starting to widen again.

This is not to forget the volatility created in interest rates at the beginning of the decade which was followed by a French franc crisis and successive devaluations of the currency within its ERM band. The experience could be markedly similar in the UK, particularly if the Government manipulates ERM for its own political purposes, cutting exchange rates after entry – and just before a general election – only to be forced to raise them again fairly swiftly. This is what happened when Spain joined the ERM.

"It is almost better to travel than to arrive," believes Mr David Owen, economist at Kleinwort Benson Securities, a UK securities house, "the market could be severely disappointed during the first few months after joining the ERM."

One of the reasons for the gilts market's excitement about ERM is its anticipation of the accompanying cut in interest rates. If this happens, it could enjoy a brief honeymoon period on entry after which it discovers that lower interest rates are not sustainable – a discovery that will send gilt yields soaring.

The yield curve on gilt-edged securities has already begun to flatten in anticipation of falling base rates – five-year yields are now at 12 per cent. This saw investors piling into a five-year Eurosterling issue last week for the premium it offered – its coupon level was set at 12¾ per cent – over the comparable government paper.

It is in the three-year sector and below where the inversion in the yield curve is still most apparent and which could prove most vulnerable in the short-term. This sector of the market has been bolstered by foreign investors looking to lock in high yields on bonds and "parking" cash in sterling.

However, if the Organisation for Economic Co-operation and Development is right and German short-term interest rates do rise by another 1 per cent in the second half of the year, foreign interest will be drained from gilts and the pound. With a yield at over 14 per cent, one-year paper could suffer a short shock.

In order to avoid Spain's experience, the Government may make an ambitious entry plan by opting for a wide band and a high entry level for sterling. This would put a further squeeze on monetary policy but would provide a bounty for bonds.

"The market is absolutely confident that we will go into the ERM and interest rates will come down," said Mr John Sheppherd, chief economist at Warburg Securities. "The issue now is one of timing."

Although the timing and method of entry should be dictated by economics, it is more of a political consideration to a Government facing an election in the next 18 months.

Once ERM has been discounted by the gilts market, it may turn its attention again to the issue of supply. The market is becoming increasingly thin and illiquid for many issues. The Bank of England made its sixth attempt last week to streamline supply by offering a gilts conversion to take effect on July 28.

The Bank of England's announcement offers to convert the 8¾ per cent 2000 Treasury loan into the 9 per cent conversion stock also maturing in the year 2000 at a rate of £96.70. The offer affects £826m of the 8¾ per cent issue and £1,231m of the conversion stock, making a full issue of around £2bn.

Deborah Hargreaves

US MONEY AND CREDIT

All eyes fixed firmly on the Fed

THE eyes of the US money markets will be fixed firmly on the Federal Reserve this week for clues to its response to President Bush's abrupt about-face on taxation policy. Will it ease monetary policy and if so, when?

The President's brief statement last week that "tax revenue increases" must form part of any budget deficit reduction package seemed to mark a turning point in US fiscal policy, opening up for the first time in years the chance of a serious effort to cut the ballooning budget deficit.

It also seemed to pave the way for a drop in interest rates. Mr Alan Greenspan, the Fed chairman, said some three weeks ago that rates would fall if a credible budget reduction package was put together by the White House and Congress.

White House pressures for a cut in interest rates will now be intensified and it so happens that the Fed's Open Market Committee, which sets monetary policy, will be meeting today for a regular two-day session.

However, the widespread expectation is that the Fed will not move immediately to cut interest rates, though the Open Market Committee is likely to set a policy directive allowing rates to move lower in late July or early August if conditions permit.

Why this caution? First, three little words from the President do not make a deficit package and there is still a very long way to go in the budget talks between the White House and Congressional Democrats, which had been stalled for six weeks before the Bush volte-face.

The two sides seem to be moving towards an agreement on the size of the cuts. Without action, the 1991 fiscal year deficit is now forecast to be around $160bn (excluding the cost of the savings and loan bail-out) compared with a total of $64bn set by the Gramm Rudman legislation.

Meeting Gramm Rudman is clearly impossible, so the targets will have to be moved, but the agreement that seems likely would allow a reduction of some $50bn.

This, however, still leaves open where the cuts and tax increases will fall, and Washington has singularly failed in the past to reach agreement on any substantive package. This time, however, the escalating nature of the fiscal crisis seems to be concentrating minds.

Even with so much up in the air, some economists are calling for rapid Fed action on the grounds of differential lags: fiscal contraction will have a more rapid impact on the economy than an interest rate impetus, so the Fed needs to move soon to counter the slowdown produced by a deficit package at the end of the year.

Certainly, the economy is far from healthy and a budget package will increase the risks of it teetering into recession, so a counter-balancing easing of credit by the Fed will be of crucial importance in the months ahead.

But a second reason for Fed caution is the still confusing range of economic signals confronting the Open Market Committee meeting. The first half of 1990 has been notable for an extraordinary degree of confusion over the course of the economy, with opinion gyrating between concerns over inflation and recession.

Inflation may not be rising, but it still looks like being stuck in a 4.5 per cent to 5 per cent range for the forseeable future, which will act as a strong restraining factor on the Fed.

As for recession, Fed officials indicated last month that in their view the risks had diminished, even though the economy was growing at a very sluggish rate, and that contrary to the views of Washington politicians, there was no "credit crunch."

However, more recent data has increased the concern of many economist about the strength of the expansion. In particular, final demand appears very weak, and consumer confidence diminishing sharply, and this could kill off what in the spring seemed to be the start of a revival in the depressed manufacturing sector.

Nevertheless, the Fed seems unlikely to ease until it has seen some more statistical evidence and particular importance will therefore attach to employment data for the month of June, due out this Friday.

The consensus among analysts is for a significant recovery in the rate of job growth after four months of softness, with many expecting an increase of 130,000 to 150,000 in non-farm payrolls, excluding the distorting effects of temporary census workers. If the figures are again very poor, this might just trigger a very rapid easing of credit by the Fed.

Last week's activity in the money markets is certainly discounting some easing before too long. Bonds rallied in the wake of the Bush statement, both on hopes of declining rates and the expectation that this will reduce the flow of government paper. The benchmark 30-year Treasury bond ended the week up ⅞ of a point in price, while its yield fell from 8.47 to 8.39 per cent. Yields dropped more sharply for shorter maturity bonds, which will benefit most from any Fed easing.

The market began the week concerned over a schedule of heavy Treasury auctions but it was cheered by the one for four-year notes, where demand was much stronger than expected and the average yield was 8.50. There were $44.78bn of bids for the $8.31bn of bonds sold, or 5.39 of bids for each one accepted. This was the highest ever bid-to-cover ratio at a four-year note sale, and there were rumours that one large Middle Eastern buyer was a big contributory factor.

But despite the much firmer tone to the US credit market over the past week, international events could yet conspire to restrict the Fed's hand. In Japan, money market rates are rising, while in Germany this weekend's monetary union will be accompanied by a tight credit policy and a big expansion of public borrowing.

So while many analysts are expecting a 50-70 basis point cut in the Fed funds rate by the end of the year, and about 50 points off Treasuries, the Fed's ability to go against the international trend may prove limited.

Martin Dickson

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	820.6	0.0	161.0	13,936.1
Prev	1,152.9	0.0	499.9	13,638.2
Other	2,555.7	0.0	91.0	4,727.6
Prev	1,550.5	0.1	433.1	3,608.6

Secondary Market

US$	18,957.3	667.8	7,264.9	8,424.5
Prev	18,406.7	797.5	6,873.4	7,173.9
Other	22,310.0	1,148.8	4,467.0	11,956.5
Prev	19,977.1	1,135.1	4,501.8	15,940.7

	Cedel	Euroclear	Total
US$	20,056.5	30,235.7	50,292.2
Prev	17,734.6	30,793.9	48,528.5
Other	27,398.2	39,856.4	67,254.6
Prev	25,381.4	42,165.6	67,547.0

Week to June 28, 1990 Source: AIBD

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed funds	7.50	8.19	8.13	9.92	7.50
Three-month Treasury bills	7.98	8.00	7.93	9.11	7.20
Six-month Treasury bills	8.00	8.00	8.01	9.37	7.18
Three-month prime CDs	8.24	8.27	8.21	10.35	8.18
30-day Commercial Paper	8.25	8.22	8.12	9.95	8.05
90-day Commercial Paper	8.17	8.12	8.07	10.05	8.07

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	109[illegible]	+[illegible]	8.44	8.52	8.48
20-year Treasury	107[illegible]	+[illegible]	8.51	8.60	8.50
30-year Treasury	103[illegible]	+⅞	8.39	8.47	8.44

Money supply: In the week ended June 18 M1 rose $0.1bn to $807.6bn

NRI TOKYO BOND INDEX

December 1983 = 100	Performance index 28/6/90	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	145.94	7.10	146.25	141.94	147.44
Government Bonds	143.57	6.97	144.07	139.62	147.37
Municipal Bonds	148.10	7.11	148.43	143.23	148.80
Govt.-guaranteed Bonds	150.53	7.15	150.72	145.63	150.26
Bank Debentures	143.11	7.23	143.27	139.64	141.46
Corporate Bonds	148.80	7.32	148.73	145.38	150.61
Yen-denom. Foreign Bonds	154.40	7.60	154.18	151.96	156.58
Government 10-year†	6.72	–	6.64	6.88	5.56

† Estimated par yield

Source: Nomura Research Institute

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHT	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 8 7/8 95	150	99	+⅛	9.27
ABN 9 1/8 94	200	99⅞	+⅛	9.23
AETNA LIFE & CAS 7 3/4 16	200	96⅜	+⅛	8.09
ALBERTA PROVINCE 7 3/8 91	750	98	+⅛	8.85
ALBERTA PROVINCE 9 3/8 95	600	100⅞	+⅛	9.14
AMERICAN EXPRESS 0 00	450	38⅝	–⅛	9.60
AMERICAN GENERAL 9 3/4 95	100	97⅞	+⅛	10.38
ANHEUSER-BUSCH 9 1/8 92	100	100	+⅛	9.09
ASIAN DEV BANK 0 04	1000	29⅞	+⅛	9.10
AUSTRALIA 11 95	200	105⅞	+⅛	9.44
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn=current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

Closing prices on June 29

Berlusconi deposed at Mondadori

By Haig Simonian in Milan

MR Carlo De Benedetti, the Italian financier, may have to wait until the end of January before he can consolidate his position at Mondadori, the leading Italian publishing group, whose chairman, Mr Silvio Berlusconi, was deposed on Friday.

The Italian entertainment magnate, who became chairman in a boardroom coup last January, lost the position after a series of crucial shareholders' meetings.

Mr De Benedetti's contract to buy a key 25.7 per cent block of shares in Amef, the holding company which owns a bare majority of Mondadori's ordinary shares, only becomes operational in January.

Silvio Berlusconi: shown the red card by shareholders

The new 15-member Mondadori board will have five representatives from the De Benedetti faction against six for Mr Berlusconi and his allies. However, as at Amef, the balance of power will be held by court-appointed sequestrators currently administering the disputed share block.

A new managing director has yet to be named. However, the court may favour Mr De Benedetti's candidate following last month's arbitrators' ruling that his contract to buy the Amef shares – guaranteeing him control of Mondadori – was valid.

Meanwhile a decision on the competing Mondadori rights issues proposed by the De Benedetti and Berlusconi sides has been postponed until July 24, to give the new board time to assess the company's financial position.

Maintaining an even temper against bitter personal attacks on his brief Mondadori chairmanship, Mr Berlusconi denied a conflict of interests between his ownership of Fininvest, the media group, and his position at Mondadori.

Fininvest had passed over an exclusive Italian magazine deal with West Germany's Bertelsmann group in favour of Mondadori, he said.

Moreover, the L11.3bn ($9.08m), out of a total budget of L40bn, spent by Mondadori with Fininvest on advertising for certain titles, was a smaller proportion of spending than Fininvest's average share of the national advertising market, he claimed.

Undaunted after being shown the red card by shareholders, Mr Berlusconi, who owns AC Milan, one of Italy's top football teams, said: "I'd rather lose Mondadori 27,000 times over than lose the football championship."

Generali premiums advance

By Haig Simonian

PARENT company premium income at Generali, Italy's biggest insurer, rose by between 10 per cent and 12 per cent on the non-life side and 16.6 per cent on the life side in the first four months of this year.

Mr Enrico Randone, the company's veteran chairman, said he expected the same rate of growth to be maintained throughout 1990.

Premiums for the parent company amounted to L2,121bn ($1.7bn) and L3,384bn for life and non-life respectively in 1989.

Mr Randone admitted that underwriting losses in non-life insurance were likely to rise in 1990 following the severe winter storms in parts of western Europe. However, he declined to provide any figures.

Last year, domestic underwriting losses reached L125bn, against gross premiums of L3,442bn, on Generali's domestic business, and L52bn abroad against total foreign premiums of L2,063bn.

Characteristically uncommunicative, Mr Randone gave no indications of the group's plans beyond identifying opportunities in eastern Europe, notably in Hungary, Czechoslovakia and eastern Germany.

LATIN AMERICA PRIVATISATIONS

Foreign bankers control ENTel

By Gary Mead in Buenos Aires

ARGENTINA'S President Carlos Menem has signed a decree confirming the sale of 60 per cent of ENTel, the country's state-run telecommunication network, to foreign consortiums.

The US operator Bell Atlantic, in conjunction with the US bank Manufacturers Hanover and several Argentine companies, is to operate ENTel north, while the Spanish company Telefónica, together with Citibank and the Argentine branch of the Italian company Techint, will control ENTel south.

The new owners are scheduled to take over on October 8.

But it has emerged that neither Bell Atlantic nor Telefónica are the leading shareholders in the newly privatised companies. ENTel north's majority shareholder is Manufacturers Hanover, with 52 per cent. Bell Atlantic has only 4.9 per cent, and its Argentine partners hold 43.1 per cent.

In the case of ENTel south, Citibank holds 57 per cent, Telefónica 33 per cent and Techint 10 per cent.

The privatisation's most important feature is the large debt-equity conversion, enabling Argentina to reduce its $62bn foreign debt by fractionally more than $5bn.

The ENTel north purchasers put up $2.31bn of Argentine debt, while those of ENTel south made a bid which featured debt worth $2.72bn.

Fears are already growing that long-suffering consumers have been duped into hoping for vigorous new telecommunication management, but the reality is that anxious bankers, with little interest in anything but recovery of bad debt, are the new owners of the collapsed company. The new operators of ENTel receive a concession for up to 10 years, after which their position is open to government review and, by implication, renationalisation.

The remaining 40 per cent of ENTel is to be divided by apportioning 10 per cent to employees, 5 per cent to co-operatives associated with ENTel, and 25 per cent will be floated as shares on the local stock market, with an individual upper limit of $2,000 worth of shares.

Mexico gives details of banks sell-off

By Richard Johns in Mexico City

FOREIGN participation in the 18 Mexican banks due for privatisation will be limited to 30 per cent rather than the 34 per cent previously indicated, under draft legislation submitted to the Congress by President Carlos Salinas de Gortari.

Individual shareholdings will be limited to 5 per cent, or 10 per cent with permission. The aim is to avoid concentration of ownership which characterised the system before nationalisation in 1982.

The legislation aims to prevent banks from giving preferential loans to substantial shareholders, and to promote substantial participation by institutional investors.

The Government will regulate the system and proposes to keep a stake in the banks, which are currently 66 per cent state-owned. It intends to keep the Fonapri support fund, administered by the Bank of Mexico, which in the past has assisted banks in financial trouble. It expects privatisation to take up to a year.

Existing shares known as *Certificados de Aportacion Patrimonial* (CAPs) will be converted into ordinary shares.

Socialists table plan to nationalise Framatome

By William Dawkins in Paris

FRENCH Socialist MPs have formally tabled plans to nationalise Framatome, the nuclear plant builder which is at the centre of a struggle for management power between the public and private sectors.

Even though the Government itself is against full nationalisation for Framatome, the plan is calculated to step up the pressure on *Compagnie Générale d'Electricité* (CGE), the privately-owned telecommunications and engineering group at the heart of the row.

CGE created a political rumpus last month by taking 52 per cent control of the partly state-owned plant builder, thereby outmanoeuvring the state, which owns 45 per cent through Electricité de France (EdF) and the CEA atomic energy commission. Framatome's staff, fiercely opposed to CGE's approach, own the remaining 3 per cent.

Mr Pierre Bérégovoy, the Finance Minister, said at the end of last week that the Government was still negotiating with CGE for 51 per cent control and that it was not seeking 100 per cent ownership. That would in any case be against the Government's policy of allowing neither nationalisations nor privatisations.

The latest proposal, by the parliamentary Socialist group, maintains that CGE's majority control of Framatome is against the public interest, a claim which rests on the plant builder's position as monopoly supplier to the highly nuclear-dependent electricity board.

Framatome's orders have dwindled in recent years, though an upturn could be on the way, following EdF's announcement on Friday that it will order its first nuclear reactor for four years in 1991 and was considering possible orders for eight more after that, to cope with growing domestic and export demand.

EdF followed an over-ambitious reactor building programme in the early 1980s, when orders were running at five a year, since when it has held back to allow electricity demand to catch up.

New issues of US securities increase by 9% in first half

By Martin Dickson in New York

NEW issues of US securities increased by nearly 9 per cent in value during the first half of this year and their composition changed radically, with a sharp decline in junk bonds, a boom in mortgage and asset-backed financings and strong growth in equities.

Figures produced by IDD Information Services show that in the first six months of 1990 new issues totalled $155.9bn, an increase of $12.5bn on the first half of last year.

But the tougher environment meant that underwriting fees continued to decline, with only $1.2bn so far this year, compared with $1.7bn in 1989.

The junk bond market saw its share of the non convertible debt dive from nearly 12 per cent to less than 1 per cent. The value of junk issues declined from $14.96bn to $1.08bn, while junk fees dropped from $452m to just $12.1m.

Debt financings rose $7.4bn, or 5.7 per cent in the first half. Mortgage-backed financings were up 33.2 per cent, to $65.8bn, but lost momentum in the second quarter, which accounted for only $6.8bn of the rise.

Asset-backed financings more than doubled, reaching $18.3bn in the first half, compared with $8.2bn in the same period of 1989.

According to IDD, combined mortgage and asset-backed debt now accounts for 61 per cent of the total domestic debt market.

Equity issues grew by $3.8bn to $12.7bn in the half, a rise of 42.7 per cent. However, there was a marked slowdown in the growth of initial public offerings – companies coming to market for the first time – which were up only 13.3 per cent to $6.8bn and comprised only 54 per cent of the equity market, against 67 per cent in the first half of last year.

IDD said that while initial offerings appeared to be on the decline, "reverse LBOs" – buy-outs returning to the stock market – might be making a comeback. The first half of the year saw 12 come to market for a total of $662m, compared with nine in all of 1989, with a value of $677m.

Merrill Lynch retained its position as leading manager of underwritten offerings, with $25.1bn of deals, or 16.1 per cent of the market, followed by Goldman Sachs with $21.2bn, Morgan Stanley with $17.8bn and Salomon Brothers with $15.8bn.

Japanese bank raises funds with subordinated loans

By Stefan Wagstyl in Tokyo

SUMITOMO Bank is to be the first Japanese bank to raise funds through subordinated loans following a recent decision by the Ministry of Finance to ease restrictions.

Sumitomo International Finance, the bank's subsidiary, will issue $1bn of subordinated notes in the US and in the Euromarket and the proceeds will be lent on a subordinated basis to the parent bank. Japanese banks are not themselves allowed to issue subordinated notes.

The size of the issue indicates Japanese banks' enormous need for capital to finance their fast-growing asset portfolios. The plunge in Japanese equity prices reduced their capital reserves significantly and forced the banks to redouble efforts to persuade the finance ministry to sanction subordinated loans. Other banks plan to follow in Sumitomo's footsteps.

The banks need to increase capital to meet standards for capital adequacy laid down by the Bank for International Settlements.

Sumitomo is to set the terms early this month. The proposed US offering will total $500m in 10-year fixed-rate notes led by Goldman Sachs, the US investment bank. Sumitomo Finance International will lead a similar issue in the Euromarket.

NEWS IN BRIEF

Shuttle head changed by Trump

MR Donald Trump, the US real estate developer whose empire is in deep financial trouble, has replaced the head of his shuttle airline, which operates a service between Boston, New York and Washington, writes Martin Dickson.

No explanation was offered for the elevation of Mr Richard Cozzi, vice president of operations, to replace Mr Bruce Nobles as president of the shuttle. However, Mr Trump expressed displeasure with the management of the operation in a recent interview. The shuttle, which Mr Trump bought for $365m last year from Eastern Air Lines, is up for sale – as is a rival service along the North-east seaboard run by Pan Am. No buyer has been found.

■ Suez, the French financial and industrial conglomerate, is to take a stake of up to 20 per cent in the family-controlled Amorim group, one of the largest private sector companies in Portugal, writes George Graham in Paris.

Suez, together with its Belgian industrial subsidiary Société Générale de Belgique and its Spanish partner Mercapital, in which it owns 25 per cent, will take part in a capital increase for Amorim Investimentos e Participacoes, the main family holding company.

Subsequent capital operations under consideration could dilute the stake to between 10 and 20 per cent.

■ Placer Dome, North America's biggest gold producer, has completed divestment of all its energy interests with the sale of the Canadian oil and gas properties to a group controlled by Amerada Hess of New York, for C$305m (US$262m) cash, writes Robert Gibbens in Montreal.

The US properties were sold two months ago to Unocal for US$336m. The two deals raise Placer's cash to well over C$1bn, earmarked for acquisitions in gold and base metals.

Placer's $67.50-a-share bid for Stikine Resources expires on Wednesday and the company says it will not extend the date.

UK COMPANY NEWS

Asprey advances to £22m but cautious on outlook

By Vanessa Houlder

ASPREY, the Bond Street jeweller, again bucked the trend of the retail sector and reported a near 20 per cent rise in pre-tax profits to £21.85m for the year to March 31.

Turnover rose by 21 per cent, from £62.04m to £75.27m.

Although Asprey's customers have generally shown themselves to be unmoved by the effects of higher mortgage rates, the company warned that it would be affected by worldwide economic problems.

Mr John Asprey, chairman, said: "We are bound to be affected by the present economic uncertainties, but it is hard to predict to what extent."

Mr Nicholas Harrington, financial controller, said that although current trading was satisfactory, the group might find it quite difficult to produce a further 20 per cent increase this year.

Profits growth had slowed since the first half, when pre-tax profits jumped by 52 per cent to £12.3m. At the time shareholders were warned that this exceptionally high growth, which was the result of certain large sales, was unlikely to continue.

After a slightly lower tax rate, earnings per share increased by 21 per cent to 18.52p (15.33p).

A final dividend of 3.25p makes a total of 4.35p – an increase of 20 per cent over the previous 3.63p.

Property disposals help Cullens return to profit

By Maggie Urry

CULLENS, the London-based convenience-store grocery chain, crept back into profit in the year to February 25 after eight years of losses.

After taking account of exceptional income of £767,000 (provisions £8m) relating to property sales, profits at the pre-tax level worked through at £119,000 compared with previous losses of £4.9m.

At the pre-exceptional level, the loss was £638,000 but that hid a small profit in the second half – there is the possibility of a return to dividend payments in the current year.

Cullens was the subject of a management buy-in in late 1984 and since then has made three equity issues, raising £11.5m, and has accumulated losses of £18m.

Mr Peter Matthews, chairman, said: "If things continue as they are we should certainly continue to trade profitably."

He said the group moved into profit last October and he hoped profits would accelerate now.

The 26 store chain has been revamped, and new stores will be opened in the current year.

The group has moved to managing the stores on a "partnership plan" and has introduced franchising. That means individual store managers are rewarded according to performance.

As a result, Cullens' turnover apparently fell during the year from £13.8m to £7.4m, but that was because the group now took a percentage of stores turnover. Stores had seen on average a 14 per cent sales increase on a comparable basis, Mr Matthews said.

Receivers called in at Kromagraphic

By John Thornhill

Kromagraphic, the computer graphics and photographic reproduction house, has called in the administrative receivers in "view of the serious nature of the company's continuing financial problems."

On Friday the company asked the Stock Exchange to suspend its shares at 2p, compared to the value of 10p at which the shares were placed when the company was introduced to the Third Market in 1988.

Earlier this year, the company warned of losses for the year to March 31 following an interim loss of £190,000. Mr Jim McNulty, chairman, said the losses were caused by a downturn in business in the advertising and marketing fields.

MAI raises £79m via asset sale in France

By George Graham in Paris

MAI, the British services company, is to raise £79m by placing part of its stake in Avenir Havas Media, the posters and freesheets group which it controls jointly with Havas, the French privatised media group.

MAI will place 2.1m Avenir shares at a price of FFr371 each.

This will cut from 32 per cent to 20 per cent its stake in Avenir, which was formed a year ago from the merger of Havas's poster and freesheet businesses with MAI's poster interests.

Havas will remain the leading shareholder in Avenir with 51 per cent, but MAI said it regarded its remaining 20 per cent stake as a "long term strategic holding" and had no intention of reducing it further.

Avenir, which made after-tax profits of FFr176m last year, is the leading poster group in France, the UK, Ireland, Spain, Portugal and Italy, as well as number one in the French freesheet market.

FT Share Service

The following changes have beenmade to the Share Information Service:

Additions: Siemens AG (Section: Electricals).

Vard AS A (Free) (Transport).

Deletions: Aquascutum (Ord. & A) (Drapery & Stores).

Fashion & General (Investment Trusts).

Fledgeling Japan Inv. Co. Warrants (Investment Trusts).

Fundinvest (Inc. & Cap.) (Investment Trusts).

Lancaster (Motors).

Mainmet (Industrials).

Oceana Development (Investment Trusts).

Pennant Group (Third Market).

Regentcrest (Property).

Star Computer (Electricals).

BOARD MEETINGS

TODAY

Interim- Kleinwort Benson Gilt Fund.

Finals- Crosby (James), Robertson, Scottish & Newcastle Breweries, Wessex Water.

FUTURE DATES

Interims-	
Buckingham Intl.	July 5
Bensford Intl.	July 5
Denmans Electrical	July 20
Dewhurst	July 19
Domino Printing Sciences	July 11
Fleming American Inv Tst	July 4
LASMO	July 25
Leica	July 9
Securiguard	July 18
Finals-	
Alan Paul	July 9
Bespak	July 18
Bogod	July 4
Brasway	July 19
Campbell & Armstrong	July 4
Desjen	July 5
Dixons	July 11
Elbief	July 19
First Technology	July 5
Fleming Inv. Trust	July 3
Hampson Industries	July 17
Ivory & Sime	July 6
Menzies (John)	July 9
Mosaic Investment	July 9
Morris Ashby	July 11
Palmerston	July 6
Real Time Control	July 6
Rowe Evans Invs.	July 5
Smith (WH)	Aug. 29
Symonds Engineering	July 19
UMECO	July 5
Walpac	July 12

UK COMPANY NEWS

Mecca gives more details about surprise submission

By Andrew Hill

MECCA LEISURE was forced to consider the disposal of some of its core leisure businesses to reduce borrowings before finally deciding to recommend the hostile bid from Rank Organisation.

In a letter to Mecca shareholders explaining last week's surprise decision in more detail, Mr Ernest Sharp, one of the leisure group's non-executive directors, said net group borrowings now totalled £472m, which represents gearing of nearly 150 per cent.

Mecca eventually decided that to sell its core bingo or dance clubs, or its Hard Rock café chain, would leave the company with no future.

Mr Sharp is standing in for Mr Michael Guthrie, Mecca's chairman and chief executive who led the defence but underwent emergency heart surgery 10 days ago.

Mecca had already decided it should dispose of non-core businesses, such as its London casinos, Character Hotels chain and branded restaurants, but did not manage to attract buyers at the right level.

Mr Sharp said the uncertainties surrounding the group's future might have deterred some potential purchasers. "We continue actively to pursue negotiations with a number of parties whose offers may be acceptable," he added.

Mr Sharp also warned that the continuing high level of interest charges would adversely affect its profits in 1990-91.

Rank's £544m takeover bid was launched at the beginning of last month. It still faces the possibility of a Monopolies and Mergers Commission inquiry into the effect on competition in the UK bingo market. Mr Michael Gifford, Rank's chief executive, said last week he would be happy to provide assurances to the Office of Fair Trading about disposals in London to avoid an MMC referral.

York Trust earnings decline

By Nikki Tait

EXTRAORDINARY charges of over £5.5m left after-tax profits at York Trust Group, the financial services company, down by two-thirds at £1.45m in the year ended March 31 1990.

As a result, the USM-traded group is having to dip into reserves to pay a same-again second interim dividend of 1.7p a share, declared in January.

However, the company claims that the write-downs should cover its exit from investment activities, including the disposal of the original York Trust corporate finance house business, and from small ticket asset finance via the disposal of Park Place Finance.

The stated aim is to concentrate on money-broking – boosted by the acquisitions of Kirkland-Whittaker's international money broking businesses in May 1989 and International City Holdings last March – plus lease packaging.

The group, which plans to change its name to Babcock Prebon, is also changing its year-end to September 30. The results under review were presented as a "second interim" statement.

At the operating level, profits reached £13.2m on income of £71.3m, against £10.7m and £29.4m respectively before. However, earnings per share were down from 7.1p to 4p.

Comparisons are distorted by the group's corporate activity. The ICH acquisition came only two weeks before the end of the accounting period and had little impact on the figures. But KW was initially loss-making when it joined the group, and a final earnout payment on Babcock and Brown (UK) also fell due, leading to the issue of 32m shares.

York Trust also blamed the earnings downturn on reduced profits from Park Place – approximately £100,000 against £1m – and investment banking, which made some £500,000, about 15-20 per cent of its contribution in the previous year.

Berisford property provisions could be less than feared

Provisions against Berisford International's various property projects in New York could be less hefty than some analysts had feared.

The troubled sugar and property company will reveal its halfway figures on Thursday and is expected to pass its interim dividend, despite a good performance from the British Sugar operation.

Write-offs on Berisford's ill-judged investments in the Manhattan property market are still expected to total more than £150m, but should fall short of the worst estimates of as much as £200m.

Marling static at £7.5m

TURNOVER OF Marling Industries, manufacturer of industrial textiles, safety products and vehicle body-builders, exceeded £100m for the first time, rising from £91.14m to £119.1m in the year ended March 31 1990.

Pre-tax profits, however, emerged fractionally lower at £7.51m compared with £7.54m.

Mr Peter Held, chairman and chief executive, said operating profits of £10.09m (£9.12m) reflected the harsher economic circumstances during the latter part of 1988-89. Interest charges accounted for £2.89m (£1.76m).

The vehicle body-building subsidiary, Boalloy, was affected by the downturn in UK truck registrations in the final six months of the year. Elsewhere, the results from the associate Thomas French were significantly lower than anticipated.

Mr Held added that there had been little change in the overall performance in the opening months of this year. Trading conditions in the UK were being cushioned by steady performances in the group's overseas operations.

Earnings per share were 14.68p (17.85p) basic or 14.38p (16.23p) fully diluted. A final dividend of 2.9p is proposed making a total of 4.4p (4p).

25% salary increase for Boots chief executive

By Maggie Urry

SIR JAMES Blyth, chief executive of Boots, the retail and pharmaceutical group, received a near 25 per cent pay rise in the year to end-March, according to the group's accounts. Sir James' salary rose from £307,000 to £383,000.

Over the year Boots' pre-tax profits increased by 16.7 per cent to £358m and earnings per share by 12.8 per cent to 25.5p.

The group granted 2.265m share options under the executive share option scheme during the year. The options are exercisable at a price of 257p between December 1992 and December 1999; that compares to the closing share price of 296p. The number of options for Sir James has increased during the year by 155,000 to 520,000.

The acquisition of Ward White during the year resulted in a goodwill write off of £644.9m, while other purchases meant a £15.9m goodwill write off. Acquisition provisions of £27.5m were left at the year end to offset restructuring expenditure, after £22.3m of spending was set against such provisions during the year.

Kewill Systems advances 48%

Kewill Systems, a USM-quoted computing services company specialising in software, lifted pre-tax profits by 48 per cent from £1.81m to £2.67m for the year ended March 31 1990. Turnover grew 51 per cent to £17.11m.

Mr Kevin Overstall, chairman, said the group's enlarged operations, combined with any new acquisitions, should produce further growth in the year ahead. Micro-MRP would contribute a full year's profit as would the Han Dataport group, which joined at the start of the current financial year.

After tax of £803,000 (£626,000) earnings per 5p share rose from 19.71p to 27.11p or from 18.1p to 25.01p diluted. There was also an extraordinary loss of £339,000 this time. The recommended single dividend for the year is 4.5p (3p).

Banks' profits face triple squeeze

David Lascelles sets the scene for the clearers' interim results

MANAGERS OF the Big Four UK clearing banks will have closed their books on the first half of the year this week-end with furrowed brows.

Although they will not be publishing their interim results for another month, it is already clear that 1990 is proving very tough for the lending business. High interest rates, a sharp slowdown in many sectors of the economy, mounting bankruptcies – all are taking their toll.

Sir Nicholas Goodison, the chairman of the Trustee Savings Bank Group, warned last week that the credit squeeze was turning out to be the worst since the early 1970s, and would probably continue into 1991. "It is the job of the banks to ride this out," he said.

The TSB, which has a different financial year from the Big Four, gave a foretaste of the kind of pressures that will be shaping the clearers' results. It more than trebled its provisions for bad debts to £86m. According to Sir Nicholas, the credit picture had worsened sharply in the last two months, producing unpleasant surprises like the collapse of British & Commonwealth. The Girobank, which also published its results last week, nearly doubled provisions to £22.2m.

The banks face a triple squeeze. One aspect is a narrowing of margins caused by high interest rates which are driving up costs. A second is a rising volume of bad debts, particularly in the retail, property and construction sectors, and the third is an overall slackening of demand for loans, particularly since April.

All this is prompting analysts to redraft their interim forecasts. Mr Keith Brown of Morgan Stanley, in a report entitled "Closer to the precipice for UK banks", scaled back his total expectations for the Big Four's profits this year by 15 per cent. Because he believes that high interest rates may continue into early 1991 he has also reduced forecasts for next year.

Mr Chris Ellerton, banking analyst at Warburg Securities, says he has encountered unusually high levels of anxiety and gloom in the banking industry. He expects that the clearers will have to make about £600m of domestic bad debt provisions in the first half of this year, an increase of 88 per cent on last year's first half. Like Mr Brown, he also believes that the pain could be long drawn out.

Analysts generally expect Barclays to make the biggest provisions – probably in excess of £250m. But this is mainly because of the £100m it has already said it will make for its exposure to B&C. The rest of its loan book is in better shape.

UK clearing banks interim profits (£m)	1989	1990*
Barclays	590	750
Lloyds	93	460
Midland	-531	185
NatWest	352	550

*Estimates by UBS Phillips & Drew

Big provisions are also likely at NatWest, the second largest clearer, because of a combination of losses on the domestic market and the US. NatWest is a lender to Colorol, the consumer products group which went into receivership recently. But its biggest problems lie in the US where it has a large subsidiary operating in New York and New Jersey with exposure to the depressed property market, including Mr Donald Trump. Mr Peter Toeman, of UBS Phillips & Drew, expects NatWest to make £150m of US provisions in the second quarter.

Lloyds Bank has been quiet about its problems, though it was lead banker to Rush & Tompkins, the failed property developer. The bank anticipated the downturn with larger provisions last year so it may not have to take such a big hit this time round.

Midland's chairman, Sir Kit McMahon, has already warned that interim results will be sharply down on last year. But though Midland has its share of bad debts, including £30m to B&C, it also suffered a profits squeeze from a sharp fall in current account balances in the first quarter of this year – a time when balances are always volatile for seasonal reasons. Balances are understood to have fallen by nearly 50 per cent; though they have now recovered, the temporary loss of cheap funding put a heavy strain on the profit and loss account.

The only bright spot on the horizon will be the Abbey National, which only joined the ranks of the high street banks last year. The Abbey is expected to show a healthy gain in profits, mainly because it has largely kept out of the commercial lending business and stuck to mortgage lending where losses are smaller. Nonetheless, the Abbey will probably have to make some general provisions too as a precaution.

Despite their problems, the clearers' results will show sharp improvements over the first half of last year, which was a period when they were making heavy provisions against Third World debts. In comparison, their new problems look much smaller, but they are still at the stage when their eventual size cannot be gauged. Analysts doubt that the problems will put any bank into jeopardy or lead to a fresh bout of rights issues. But at least one – Midland – may be forced to hold its dividend.

Hibs defending strongly against hostile Hearts

By Andrew Hill

The playing staff of Hibernian, the Edinburgh football club, are worth 27.9p per share, according to the official defence against the hostile bid from Heart of Midlothian, the rival club in the city.

In a defence document scattered with footballing references, Edinburgh Hibernian invites its shareholders to "show Hearts the red card".

Hibs values its assets – which include a portfolio of pubs, clubs and bars in the south west of England – at £7.69m, against the Hearts offer of £6.1m in cash. According to the board, on July 31 Hibs' playing staff will have an open market transfer value of £4.27m. The players are not valued in the group's balance sheet.

The company also casts doubt on the financing of the Hearts offer. Mr David Duff, Hibs' chairman, warned that the controversial offer "could leave Hearts with a weak balance sheet which would put Premier League football in Edinburgh at risk".

SeaCon comes under fire from IoM Steam

By Andrew Hill

Isle of Man Steam Packet yesterday accused Sea Containers of trying to take the credit for recent improvements to the running of the ferry company.

Last week the Bermuda-registered container, ferry and hotel company, which already owns 41 per cent of the Steam Packet, mounted a hostile bid which valued the whole company at £17.25m.

In its statement yesterday, the Steam Packet said it had no need of Sea Containers' financial resources. It added that it had been looking at the possible introduction of high-speed craft on its crossings for over a year. Sea Containers' new high-speed catamaran, the SeaCat, was only one option, it said.

Sea Containers' offer document, posted on Friday, revealed that if the bid was successful all existing shareholders in the Steam Packet – whether they accept the offer or not – would be entitled to roughly double their current fare concessions on the ferry line.

BASE LENDING RATES

	%		%		%
ABN Bank	15	Coutts & Co	15	Northern Bank Ltd	15
Adam & Company	15	Cyprus Popular Bk	15	Nykredit Mortage Bank	15½
Allied Trust Bank	15	Dunbar Bank PLC	15	Provincial Bank PLC	16
Allied Irish Bank	15	Duncan Lawrie	15	R. Raphael & Sons	15
● Henry Ansbacher	15	Equatorial Bank plc	15	Roxburghe G'rantee	15½
Associates Cap Corp	15½	Exeter Trust Ltd	15½	Royal Bk of Scotland	15
● B & C Merchant Bank	15	Financial & Gen. Bank	15	Royal Trust Bank	15
Bank of Baroda	15	First National Bank Plc.	16½	● Smith & Williamson Secs.	15
Banco Bilbao Vizcaya	15	● Robert Fleming & Co.	15	Standard Chartered	15
Bank Credit & Comm	15	Robert Fraser & Ptnrs.	15½	TSB	15
Bank of Cyprus	15	Girobank	15	Unibank plc	15
Bank of Ireland	15	● Guinness Mahon	15	● United Bk of Kuwait	15
Bank of India	15	HFC Bank plc	15	United Mizrahi Bank	15
Bank of Scotland	15	● Hambros Bank	15	Unity Trust Bank Plc	15
Banque Belge Ltd	15	Hampshire Trust Plc	15½	Western Trust	15
Barclays Bank	15	Heritable & Gen Inv Bnk.	15	Westpac Bank Corp.	15
Benchmark Bank PLC	15	● Hill Samuel	§15	Whiteaway Laidlaw	15½
Brit Bk of Mid East	15	C. Hoare & Co.	15	Yorkshire Bank	15
● Brown Shipley	15	Hongkong & Shangh	15		
CL Bank Nederland	15	● Leopold Joseph & Sons	15		
● Charterhouse Bank	15	Lloyds Bank	15		
Citibank NA	15	McDonnell Douglas Bnk	15		
City Merchants Bank	15	Meghraj Bank Ltd	15		
Clydesdale Bank	15	Midland Bank	15		
Comm. Bk. of London Plc	15	Mount Banking	15		
Co-operative Bank	*16	Nat Bk. of Kuwait	15		
		NatWestminster	15		

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GRANVILLE SPONSORED SECURITIES

Capitalisation £000's	Company	Price	Change on week	Gross div (p)	Yield %	P/E
9074	Ass. Brit. Ind. Ord	280	0	10.3	3.7	7.5
625	Armitage and Rhodes	25	0			
119605	Bardon Group (SE)	152	+2	4.3	2.8	14.8
16700	Bardon Group Cv. Pref. (SE)	97	0	6.7	6.9	-
4234	Bray Technologies	70	-1	5.9	8.4	6.2
	Breml'll Conv Pref	82	0	11.0	13.4	-
1197	CCL Group Ordinary	315	0	14.7	4.7	3.9
2063	CCL Group 11% Conv Pref	165	+1	14.7	8.9	-
16740	Carbo Plc (SE)	215	0	7.6	3.5	12.6
770	Carbo 7.5% Pref (SE)	110	0	10.3	9.4	-
-	Magnet Go Non Voting A Cnr*	0.1	0	-	-	-
-	Magnet Go Non Voting B Cnr*	0.1	0	-	-	-
4697	Isis Group	59	-4	8.0	13.6	3.4
25551	Jackson Group (SE)	119	+1	3.6	3.0	13.8
25342	Multihouse N.V. (AmstSE)	325	-20	-	-	-
1326	Robert Jenkins	130	0	13.0	7.7	4.7
15600	Scruttons	325	+5	18.7	4.0	8.6
-	Unitrust Europe Conv Pref	165	+5	9.3	5.6	-
3894	Veterinary Drug Co. PLC	236	-4	22.0	9.3	9.4
8557	W. S. Yeates	382	0	16.2	4.2	31.8

Securities designated (SE) and (USM) are dealt in subject to the rules and regulations of the ISE. Other securities listed above are dealt in subject to the rules of TSA.
These securities are dealt in strictly on a matched bargain basis. Neither Independent Companies Exchange Limited nor Granville Davies Limited are market makers in these securities.
* These securities are dealt on a restricted basis. Further details available

FINANCIAL TIMES STOCK INDICES

	June 29	June 28	June 27	June 26	June 25	June 22	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs.	79.97	79.89	80.02	80.37	80.35	80.39	84.20	74.13	127.4	49.18
Fixed Interest	88.22	88.19	88.42	88.41	88.54	88.67	92.91	83.80	105.4	50.53
Ordinary	1899.9	1887.8	1902.6	1926.6	1929.4	1913.0	1968.3	1653.6	2008.6	49.4
Gold Mines	176.8	176.1	174.5	174.2	173.9	171.0	378.5	167.9	734.7	43.5
FT-Act All Share	1171.28	1163.73	1170.55	1181.10	1179.39	1171.96	1226.83	1043.16	1238.57	61.92
FT-SE 100	2374.6	2355.7	2373.5	2399.8	2398.5	2378.5	2463.7	2103.4	2463.7	986.9

DIARY DATES

FINANCIAL

TODAY
COMPANY MEETINGS-
Addison Consultancy, Caledonian Club, 9 Halkin Street, S.W., 11.30
Westerly, 1 Victoria Sq, Birmingham, 10.00
Yule Catto, Great Eastern Hotel, Liverpool Street, E.C., 12.00
BOARD MEETINGS-
Finals:
Crosby (James)
Robertson Group
Scottish & Newcastle Breweries
Wessex Water
Interims:
Kleinwort Benson Gilt Fund
DIVIDEND & INTEREST PAYMENTS-
ABB Kent $4\frac{1}{2}$% Cm. Pf. 1.575p
AMEC 11.75p
ASD Cv. Cm. N/Vtg. Rd. Pf. 4p
Alba 1.5p
Allied London Props. 1.075p
Anglo-Eastern Plants $12\frac{1}{2}$% Un. Ln. 1995/99 $6\frac{1}{4}$pc.
Appleby Westward 5.5p
Arlen $11\frac{3}{4}$% Cv. Un. Ln. 1990 $5\frac{7}{8}$pc.
Arlington sec. $9\frac{1}{2}$% Cm. Rd. Pf. 2008 4.75p
Asda Prop 1.15p
Assoc. Fisheries 8% Cm. Pf. 1.4p
Do. $4\frac{1}{2}$% Cm. Pf. 1.5925p
Assoc. Paper Inds. 2.75p
Austin Reed 6.5p
Do. A N/Vtg. 6.5p
Avon Rubber 5p
Ayrshire Metal Products 5p
BICC 13.25p
Do. 6% 1st Cm. Pf. 2.1p
Do. $5\frac{1}{2}$% 2nd Cm. Pf. 1.925p
BSG Intl. 2.5p
Bads Hldgs. 3.75p
Barrett (Henry) 2p
Baxter Intl. 18cts.
Beattie (James) A 3.8p
Beaufort 7p Cm. Cv. Rd. Pf. 3.5p
Do. New 3.29863p
Berkeley Hldgs. 1p
Blue Circle $7\frac{3}{4}$% Cv. Cm. Rd. Pf. 3.8125p
Bodycote Intl. 5p
Booker 10p
Bournemouth & District Water 3.5% Cons. 1.75p
Do. 2.8% Pf. 1.4p
Do. $10\frac{1}{2}$% Rd. Db. 1996 $5\frac{1}{4}$pc.
Do. $12\frac{1}{4}$% Rd. Db. 1995 $6\frac{1}{8}$pc.
Bowthorpe Hldgs. 3.58p
Bradstead 1p
Braithe Brothers 3p
Brammer 5.5p
Bridon 1.08p
Bridport-Gundry 6% Cm. Pf. 2.1p
Bristol Waterworks 2.8% Perp. Pf. 1.4p
Do. 3.5% Cons. Pf. 1.75p
Do. 4% Cons. Db. 2pc.
Do. 9.8% Rd. Db. 1996 4.9pc.
Do. 10.4% Rd. Db. 2000/02 5.2pc.
British Aerospace 7.75p Cm. Cv. Rd. Pf. 3.875p
British Columbia Electric 4% 1st Mtg. Bds. Ser F 1961/91 2pc.
British Empire Sec. & Gen. Tst. $10\frac{1}{2}$% Db. 2011 $5\frac{1}{4}$pc.
British Sugar $10\frac{3}{4}$% Rd. Db. 2013 $5\frac{3}{8}$pc.
Brown & Jackson 1.2p
Do. 10.75% Cv. Cm. Pf. 5.375p
Burzl 3.3p
CI Group 1.25p
Calor 9p
Canning (W.) 4.35p
Carlton Comms. Cm. Cv. Rd. Pf. 3.25p
Chester Water 8% Rd. Pf. 1992 .4p
Do. 8% Rd. Db. 1992/94 4pc.
Chillington Corp. $9\frac{1}{2}$% Cm. Rd. Pf. 4.75p
Coats Viyella 5p
Concentric 3.37p
Cookson Grp. 8p
Cooper (Frederick) 1.5p
Costain 7.2p
Coutney Pope 6% Cm. Pf. 1.05p
Credit for Exports Un. Fltg. Rate Nts. 1985/92 3424.22
Croda Intl. 6.8p
DAKS Simpson 3.5p
Do. A (N/Vtg.) 3.5p
Dalgety 7.15p
Delyn Packaging 1p
Dinkie Heel 0.9p
Diploma 2.25p
Downiebrae 0.5p
Egerton Tst. 7% Cv. Cm. Rd. Pf. 3.5p
Do. 9.75% 1st Cm. Rd. Pf. 4.875pc.
Elliott (B.) 3.15% Rd. Cm. Pf. 1.575p
Epicure Inds. 0.82p
Fenner 3.45p
Farnum Hldgs. 1.5p
First Debenture Fin. 11.125% Sec. Std. Db. 2018 5.5625pc.
Fisons 3.85p
Fitzwilton 2p
Do. $6\frac{1}{2}$% Cm. Pf. 2.54p
Fleming High Inc. Inv. Tst. 1.35p
Folkes 1.8p
Do. N/Vtg. 1.8p
Folkestone & District Water 7% Rd. Pf. 1998 $3\frac{1}{2}$pc.
Fosseco 8.8p
French Connection 1.8p
Gartmore American Sec. 0.9p
Garton Eng. 6.25p
Gaskell 5.5p
Do. 5% Cm. Pf. 1.75p
Geest 3p
General Accident Fire & Life Assoc. 32.5p
Do. $5\frac{1}{2}$% Cm. Pf. 1.925p
Gerrard & National 16p
Gieves 2.7p
Greyhound Dial Corp. 33cts.
Guardian Royal Exchange 7.5p
Guildehouse 0.2p
Guinness Mahon 0.8p
Guinness $5\frac{3}{4}$% Cv. Cm. Rd. Pf. 2.875p
Haden MacLellan 4.8p
Halls Homes & Gardens 4p
Hamilton Oil Ser. A Pf. 48.75cts.
Harrisons & Crosfield 5.1p
Hartons 0.1p
Do. 7% Cv. Cm. Rd. Pf. 3.5p
Hawker Siddeley 15p
Hawthorn Leslie 0.4p
Hawtin 4.55% Cm. Pf. 2.275p
Hay (Norman) 1.5p
Hazlewood Foods 7.5% Cm. Ptg. Pf. 4.375p
Helene 1.35p
Helical Bar 7.5p
Hepworth 6.7p
Hillsdown 5.4p
Huntleigh Technology 1.25p
Ibstock Johnsen 3.75p
Inchcape 8.5p
Jackson Grp. 2.2p
Jessops 2.25p
Johnson Grp. Cleaners 9% Cm. Pf. 3.15p
Do. 7.5p Cv. Cm. Rd. Pf. 3.75p
Kingston Oil & Gas 0.0875p
Kwik Save 3.7p
LWT (Hldgs.) 3.9875p Cv. Cm. Pf. 2.19388p
Ladbroke 5.85p
Lamont Hldgs. 8p
Lawrence (Walter) 5.5p
Leeds 3p
Landu Hldgs. 0.7p
Lilleshall 5% Cm. Pf. 1.75p
Lon. & Edinburgh Tst. $8\frac{3}{4}$% 1st Cm. Rd. Pf. 2013 4.4375p
Lon. & Metropolitan 4.25p
Lon. & O'seas Freighters 1p
Lyles (S.) 11% Cm. Pf. 5.5p
Martin (A.) 2.4p
Marylebone Estates 1.5p
Mecca Leisure 3p
Mercury Asset Mngmt. 17.5p
Mid Kent Water 6% 3p
Do. 12% Rd. Db. 1993 6pc.
Do. $12\frac{1}{4}$% Rd. Db. 2005 $6\frac{1}{8}$pc.
Do. $9\frac{3}{4}$% Rd. Db. 1997/99 $4\frac{7}{8}$pc.
Do. $12\frac{3}{4}$% Rd. Db. 1995 $6\frac{3}{8}$pc.
Mid-Sussex Water4% Perp. Db. 2pc.
Do. 5% Perp. Db. 2.5pc.
Do. 11% Rd. Db. 2012/16 $5\frac{1}{2}$pc.
Do. $5\frac{1}{2}$% Db. 1990 $2\frac{3}{4}$pc.
Morgan Crucible 6.7p
Morland 1.87p
Mount Charlotte Invs. 0.83p
Mucklow (A & J) 2.23p
National Home Loans 3.75p
Nationwide Anglia Bldg. Soc. $14\frac{5}{8}$% Bds. 2/7/90 £7.3916
New England Props. 1p
New South Wales Treasury 11.5% Exch. Bds. 1/7/99 $5\frac{3}{4}$pc.
Newton Chambers 5% 1st Cm. Pf. 1.75p
Next 2p
Normans 5% Cm. Pf. 2.5p
Do. $8\frac{3}{4}$% Cv. Un. Ln. 1999/2004 $4\frac{3}{8}$pc.
North British Canadian Inv. Co. 7.5p
Northern Eng. Inds. 5.375% Cm. Pf. 2.6875p
Do. 11% Cm. Pf. 5.5p
Do. 3% Cm. Rd. Pf. 1.5p
Do. 9% Un. Ln. 1990/95 $4\frac{1}{2}$pc.
Do. 7% Un. Ln. 2000/05 $3\frac{1}{2}$pc.
Nurdin & Peacock 2.92p
Nu-Swift 8p
OK Bazaars 53cts.
Padang Senang 1.1p
Partland 0.35p
Perpetual 0.8p
Perry 6.25p
Petrocon 0.75p
Plasmec 3.2p
Portals Hldgs. 8p
Property Sec. Inv. Tst. 8% Cm. Pf. 4p
RIT Capital Partners 2.84p
RTZ (Reg) 13.5p
Do. 3.325% A Cm. Pf. 1.6625p
Do. 3.5% B Cm. Pf. (Reg) 1.75p
Rathbone Brothers 3p
Redland 15.85p
Richards 1.07p
Rickmansworth Water 4% Mtg. Db. 2007/2028 2pc.
Runciman (Walter) 9p
Sanderson Electn. 3p
Savoy Hotel 4% 1st Mtg. Perp. Db. 2pc.
Savoy Theatre 4% 1st Mtg. Db. 2pc.
Sears Roebuck 50cts.
Sec. Tst. of Scotland 1.92p
Sema 1.6p
Serif Cowells 2p
Silentnight 2.75p
Silverminea 2.5p
Simon Eng. 11p
Do. 6% Cm. Pf. 2.1p
Do. 4% Cm. Pf. 1994/96 2p
Do. 6.35% Cm. Rd. Pf. 1991/96 3.175p
Do. 5.4% Cm. Pf. 2.7p
Do. 7.75% Cm. Rd. Pf. 1992/97 3.875p
South African Breweries 75cts.
South Staffs Water 3.5% 1.75p
Do. 4.9% Class C 2.45p
Do. Class B 2.45p
Do. Class A 2.45p
Do. 2.8% Dudley Pf. 1.4p
Do. 3.5% Cons. Pf. 1.75p
Do. 2.1% Pf. 1.05p
Do. $3\frac{1}{2}$% Perm Db. $1\frac{3}{4}$pc.
Do. 4% Perm Db. 2pc.
Do. 5% Perm Db. $2\frac{1}{2}$pc.
Do. $7\frac{1}{2}$% Rd. Db. 1991/94 $3\frac{3}{4}$pc.
Do. $7\frac{3}{4}$% Rd. Db. 1991/96 $3\frac{7}{8}$pc.
Do. $9\frac{1}{4}$% Rd. Db. 1998/2000 $9\frac{1}{4}$pc.
Sovereign High Yield Inv. Co. 88cts.
Spear (J.W.) 7.5p
Sun Alliance 8p
Sunderland & South Shields Water 9.8% Rd. Db. 1996 4.9pc.
TR Far East Inc. Tst. 1p
Taylor Woodrow 7.25p
Telfos Hldgs. 9% Cm. Pf. 4.5p
Tendring Hundred Water $8\frac{1}{4}$% Rd. Pf. 1995 $4\frac{1}{8}$p
Do. 12% Rd. Db. 1993 6pc.
Tesco 2.58p
Tilton Hldgs. 1.03p
Tops Estates $10\frac{1}{4}$% 1st Mtg. Db. 2011/16 $5\frac{1}{8}$pc.
Travis Perkins 5.5p
Trusthouse Forte 7.16p
United Biscuits 6.3p
Usborne 1p
Ueber-Walker 7.5p
Do. 5% Cm. Pf. 1.75p
Vaux 2.98p
Vinten 2.55p
WPP 12.9p
Do. (Rfd 1/1/90) 12.9p
Walker Greenbank 1.75p
Warburg (S.G.) 10.5p
Wardle Storeys 4p.
Watts, Blake, Bearne 5p
West Hampshire Water 3.15% Pf. 15.75p
Do. 3.85% Pf. 19.25p
Do. 4.2% Pf. 21p
Do. 4% Db. Perp. 2p
Do. 5% Perp. Db. $2\frac{1}{2}$pc.
Do. 11.8% Rd. Db. 1994/96 $5\frac{1}{4}$pc.
West Kent Water 4% Perp. Db. 2pc.
Do. $7\frac{1}{2}$% Rd. Db. 1989/91 $3\frac{3}{4}$pc.
Do. 10% Rd. Db. 1993/95 5pc.
Do. $12\frac{1}{2}$% Rd. Db. 1994/96 $6\frac{1}{4}$pc.
Western Motor 12p
Do. $5\frac{1}{2}$% Cm. Pf. 1.925p
Willaire 0.51p
Willis Faber 8.15p
Wilson (Connolly) 2.3p
Young & Co's Brewery $3\frac{1}{2}$% Irrd. Mtg. Db. $1\frac{3}{4}$pc.

TOMORROW
COMPANY MEETINGS-
Cakebread Robey, 318-326 Southbury Road, Enfield, Middlesex, 11.00
German Smaller Co's. Inv. Tst., 24 Cornhill, E.C., 12.30
Henderson Administration, 3 Finsbury Avenue, E.C., 12.30
Sears, The London Marriot Hotel, Grosvenor Square, W., 11.30
BOARD MEETINGS-
Finals:
Associated British Eng.
Baker Harris Saunders
Bucknall Austin
CH Industrial
Fleming Inv. Trust
Farepak
Genera Electric
Harris (Phillip)
Jurys Hotel
Murray Income Trust
NMG
Pepe
Reed Executive
Scottish & Mercantile Inv. Trust
Shield Group
Interims:
Newman Tonks
Partridge Fine Arts
DIVIDEND AND INTEREST PAYMENTS-
Abbey National Treasury Services 7.7pc Gtd. Nts. 1995 3.85pc
Alida 0.25pc Pf 2008/13 4.625p
American Distributors 1.875p
Amsterdam-Rotterdam Bank $12\frac{3}{8}$pc 1989 due 1992 $6\frac{1}{4}$pc
Barr & Wallace Arnold Tst 12.5p
Do. "A" 12.5p
Bibby (J) 2.75p
Black (A & C) 8.75p
Brent Chemicals Intl. 9pc Pf 4.5p
CH Inds. $9\frac{5}{8}$pc Pf 4.8125p
Geers Gross 1p
Hogg Group 4.5p
Hunting 5.5p
Johnston Group 9p
Metro Radio 1.5p
Mowat 0.5p
Prowting 3.3p
Rand Mines 26.65186p
Ropner 4.5p
Do. "A" 4.5p
Scott & Robertson 9.25pc Pf 4.625p
Telematrix 0.5p
Temple Bar Inv. Tst. 4.2pc Pf 2.1p
Worth Inv. Tst. 0.27p

WEDNESDAY JULY 4
COMPANY MEETINGS-
Edinburgh Inv. Trust, Caledonian Hotel, Princes Street, Edinburgh, 12.00
London & Assoc., Inv. Trust, 30-34 New Bridge Street, E.C., 12.00
BOARD MEETINGS-
Finals:
Bogod
Boscombe Property
Brown & Tawse
Campbell & Armstrong
Greene, King
Hollas
Northumbrian Water
Umeco
Vardy (Reg)
Interims:
EFG
Fleming American Inv. Trust
Hambro Eurobond & Money Market Fund
Shoprite
Southern Business
DIVIDEND AND INTEREST PAYMENTS-
Aegis 2.5p
African Dev. Bank $11\frac{1}{4}$pc Ln 2010 $5\frac{5}{8}$pc
Apollo Watch Products 0.5p
Arley 1.4p
Australian Agricultural A$0.25
English & Overseas Props. 2.5p
Fashion & General Inv. 11p
German Smaller Co's. Inv. Tst. 1.2p
Proudfoot (Alexander) 7.75p
Scottish Mort. & Tst. 2.25p
Slingsby (H C) 5.5p

THURSDAY JULY 5
COMPANY MEETINGS-
Allied-Lyons, London Hilton, Park Lane, 11.30
Corton Beach, Prince of Wales Hotel, Southport, 11.00
Fine Art Developments, The Devonshire Arms, Bolton Abbey, Skipton, North Yorkshire, 4.00
Hunter Saphir, Haberdashers' Hall, Staining Lane, E.C., 10.30
Ritz Design, Dukes Court, Macclesfield, 11.00
Sindall (William), Gonville Hotel, Cambridge, 12.15
Smith (James) Estates, Cisswood House, Lower Beeding, Horsham, West Sussex, 11.30
Westbury, Golden Valley Hotel, Gloucester Road, Cheltenham, 3.00
BOARD MEETINGS-
Finals:
Deelan Hldgs
First Technology
Lees (John J)
Rowe Evans
Southern Water
Stewart & Wight
Tiphook
Interims:
Berisford Intl.
Buckingham Intl.
Leslie Wise
DIVIDEND AND INTEREST PAYMENTS-
Abbey National Building Society Fltg. Rate Nts. £362.70
Annuities $2\frac{3}{4}$pc $1\frac{3}{8}$pc
Annuities $2\frac{1}{2}$pc $1\frac{1}{4}$pc
Baird (William) 5.15p
Bankers Inv. Tst. 4pc Perp. Deb. 2pc
Bett Bros. 2.1p
Centex 10cts
Clarke, Nickolls & Coombs 2p
Consolidated $2\frac{1}{2}$pc $1\frac{1}{4}$pc
Croydon Corp $3\frac{1}{2}$pc $1\frac{3}{4}$pc
E-Systems 18.75cts
Edinburgh Inv. Tst. 4.5p
Fine Art Devs. 8.6p
Fletcher Challenge 18pc Specified Pf 17.8cts
Frost 7.75p
Gencor 6pc 6cts
Glynwed Intl. 7.5p
Highcroft Inv. Tst. 1.95p
Jacks (William) 1.1p
Mcinerney Estates 9.675pc Pf 1997 5.2218p
Molynx 2.25p
National Westminster Bank $12\frac{1}{2}$pc Ln 2004 $6\frac{1}{4}$pc
Peek 2.3p
Ptarmigan 0.25p
Ratners 7.5p
Reckitt & Colman 19.1p
Renaissance 2.4p
Scottish American Inv. 0.92p
Security Pacific Sub. Fltg. Rate. Nts. 1992 $222.76
Smith & Nephew 2.515p
Svensk Exportkredit $17\frac{1}{2}$pc E.A.G.L.E.S. 1991 $189.58
T & N 7.25p
Warburg (S G) Cap. BV Fltg. Rate Notes 2005 $424.22
Waste Management 9cts
Yule Catto 2.8p
Do. $11\frac{1}{2}$pc Pf 1998/2003 5.75p

FRIDAY JULY 6
COMPANY MEETINGS-
Albrighton, Howard Hotel, Temple Place, Strand, W., 12.00
Unilock, Gillingham House, 38-44 Gillingham Street, S.W., 11.30
BOARD MEETINGS-
Finals:
Fuller, Smith & Turner
Ivory & Sime
Palmerston Hldgs.
Real Time Control
DIVIDEND AND INTEREST PAYMENTS-
Bellway 4p
Blue Circle Inds. $7\frac{5}{8}$pc Pf 3.8125pc
British Shoe 7pc Ln 1985/90 $3\frac{1}{2}$pc
Browning-Ferris Inds. 16cts
Budgens 2p
Colman (E. Alec) Invs. $8\frac{3}{4}$pc Deb. 1986/91 $4\frac{3}{8}$pc
Courtaulds 5pc Pf. 1.75p
Do. $5\frac{1}{2}$pc Ln 1994/96 $2\frac{3}{4}$pc
Cussins Property 5.5p
Dunedin Worldwide Inv. Tst. 2.4p
EIS 7.7p
Elam 4.65p
Everod 3.66p
FR 4.14p
Farnell Electronics 2.7p
Fleming Far Eastern Inv. Tst. 1.3p
Greenall Whitley Lim. Vtg. 4p
Do. "A" 0.8p
Hamilton Oil 2.5cts
INSTEM 1.5p
Jarvis 1.05p
Kelsey Inds. 8p
Kingfisher 7.9p
Kunick 0.6p
Linread $7\frac{1}{4}$pc Deb 1988/93 $3\frac{7}{8}$pc
London Finance & Invest. 1.3p
Majedie Invs. 2.5p
Mid-Sussex Water 4.9pc Max. Add. 2.45p
Morgan Crucible 7.5pc Pf 3.75p
Do. $9\frac{1}{2}$pc Deb 1995/2000 $4\frac{3}{4}$pc
Perambe 1p
Premark Intl. 21cts
Quicks 4p
Radio Clyde 3.25p
River & Merc. Tst. Inc. 1.8p
Schlumberger 30cts
Scottish National Tst. Inc. 1.7p
Sears 3.83p
Shani 1.5p
Sindall (William) 4.5p
Smith (W H) 8pc Deb. 1987/92 4pc
Do. $5\frac{1}{2}$pc Ln $2\frac{3}{4}$pc
Do. $7\frac{3}{4}$pc Ln 1988/98 $3\frac{7}{8}$pc
Smith (James) Estates 2p
Tarmac $7\frac{1}{2}$pc Deb 1987/92 3.75p
Ulster TV 2.5p
Walker (J O) 2p
West Kent Water 3.5pc Cons. 1.75p
Do. 2.8pc Pf Pre 1945 14p
Do. 2.8pc Pf Post 1945 14p
Do. 3.15pc Pf 7.875p
Westerly 2p
Westpac Banking 25cts
Whessoe 1.75p
Whitbread $7\frac{3}{4}$pc Ln 1999/2000 $3\frac{7}{8}$pc
Do. $10\frac{1}{2}$pc Ln 2000/05 $5\frac{1}{4}$pc
Wolverhampton & Dudley Breweries 3.7p
Yorkshire TV 3.3p

SATURDAY JULY 7
DIVIDEND AND INTEREST PAYMENTS-
House of Fraser Deb 1986/91 4pc
M & G Fund of Inv. Tst. Inc. 4.44p
Queens Moat Houses 7pc Pf 3.5p

SUNDAY JULY 8
DIVIDEND AND INTEREST PAYMENTS-
Inter-American Dev. Bank $12\frac{1}{2}$pc Ln 2003 $6\frac{1}{4}$pc

PARLIAMENTARY

Today

Commons: Debate on assistance to eastern Europe. Resolution relating to finance bill. Opposed private business from 7pm.
Lords: Road traffic (temporary restrictions) bill, 3rd reading. Social security bill, 3rd reading. Environmental protection bill, committee.
Select committee: Public accounts - subject, clerical recruitment. Witness: Peter Kemp, Office of Manpower and Civil Service (Room 16, 4.30 pm).

Tomorrow

Commons: Opposition debate entitled 'Crisis in our Schools'. Opposition debate on housing. Motion on the education (student loans) regulations.
Lords: Rights of way bill, 3rd reading. Entertainments, (increased penalties) bill, 3rd reading. Enterprise and new towns (Scotland) bill, committee. Horses (protective headgear for young riders) bill, 3rd reading. Licensing (low alcohol drinks) bill, 3rd reading.
Committees on private bills: London Underground (Victoria) bill (Room 7, 10.30 am); Midland Metro bill (Room 6, 10.30 am).

Wednesday

Commons: Debate on Arts and heritage.
Lords: Environmental protection bill, committee. Access to health records bill and consumer guarantees bill, 3rd readings.
Select committees: Foreign affairs - subject: UK policy towards southern Africa. Witness: Anti-apartheid movement (Room 17, 10.30 am).
Trade and industry - subject, ECGD. Witnesses: Major British exporters (Room 12, 10.45 am).
Employment - subject, recruitment practices. Witness: Commission for Racial Equality. (Room 20, 4.15 pm).
Home affairs - subject, practical police co-operation in the European Community. Witness: Rt Hon David Waddington QC MP, Home Secretary (Room 21, 4.15 pm).
Social Services - subject, public spending on health. Witness: Rt Hon Kenneth Clarke, QC MP, health secretary (Room 15, 4.15 pm).
Transport - subject, British Rail. Witnesses: BR chairman and officials (Room 8, 4.15 pm).
Treasury and Civil Service - subject, public expenditure: departmental annual reports. Witnesses: Officials from the Treasury, Customs and Excise, Inland Revenue and Paymaster General's Office (Room 17, 4.30 pm).
Committees on private bills: Hythe, Kent, marina bill (Room 5, 10.30 am); London Underground Victoria bill (Room 7, 10.30 am); Midland Metro bill (Room 6, 10.30 am).

Thursday

Commons: Motion on the Northern Ireland Act 1974 (interim period extension) order.
Lords: Environmental protection bill, committee. Motions for approval on the companies (fees) regulations and the farm and conservation grant scheme 1990.
Committess on private bills: Hythe, Kent, marina bill (Room 5, 10.30 am); Midland Metro bill (Room 6, 10.30 am).

Friday

Commons: Private members bills.

Trade fairs and exhibitions: UK

July 5
Health Show (081- 783 0055)
Olympia

July 11-15
Wine Fair & Festival (0272 298630)
Bristol Exhibition Centre

July 13-14
Kensington Fashion Fair (081-7422828)
Kensington Town Hall

July 19-22
International Helicopter Exhibition (081-773 3751)
Middle Wallop Birmingham

CONTRACTS

Building Australian power stations

JOHN BROWN, the Trafalgar House engineering division, has won contracts in Australia worth £22.5m for the construction of two power stations.

Both are based on heavy-duty gas turbines designed to run on natural gas, but with an option to burn oil distillate.

An order has been placed by the State Energy Commission of Western Australia (SECWA) for Stage C of the Pinjar gas turbine station project, for construction of a 105MW station, with an option for SECWA to purchase a further two gas turbines if the project is extended.

Construction will begin immediately, and the gas turbines will be installed and commissioned at the end of 1991.

The second contract was awarded by Mount Isa Mines for a 35MW plant, with an option for a second gas turbine, to provide additional power at the Mount Isa mine at Mica Creek, Queensland.

Public school in Malaysia

A Taylor Woodrow company is building a British-style public school in Malaysia. Work is under way on a 76 acre site some 30 miles south of Kuala Lumpur to create Kolej Tuanku Ja'afar, described as the country's first co-educational residential independent school.

The project is a non-profit making charitable venture supported by leading corporations and founded by members of the Negri Sembilan royal family. The school is named after Tuanku Ja'afar, ruler of Negri Sembilan, the Malaysian state where the campus is being built.

TEAMWORK CORPORATION SDN BHD, Taylor Woodrow's associated Malaysian company, is building phase one. Work on the M$12.5m contract is on schedule for the first intake of up to 300 pupils before Christmas.

Led by a British headmaster, with a teacher for every 10 pupils, the school will take pupils between 12 and 18, both Malaysian and other nationals.

Restoring the Strand underpass

CEMENTATION PROJECTS, a Trafalgar House company, has been awarded two contracts with a joint value of £7.5m.

The most prestigious is a £4m order from Westminster City Council for refurbishment of the Strand underpass in London. The tunnel, built in the early 1900s for trams on the Victoria Embankment to Holborn route, has been closed to road traffic for a year.

The work involves fireproofing, relining and waterproofing the structure of the tunnel and installation of ventilation and lighting equipment.

Cementation Projects has also won a management contract worth £3.5m for the Kettering nothern by-pass British Rail underline bridge on the M1-A1 link road.

Headquarters for Royal Insurance

Contracts worth over £22m have been won by ERNEST IRELAND CONSTRUCTION, Bath.

The largest, worth nearly £9m, is for refurbishment of a five-storey 1930s building in Colston Street, Bristol, to create a regional headquarters for Royal Insurance. The work, for property developer Maple Oak, will provide 90,000 sq ft of air-conditioned office space.

At Bristol University the company has a contract, worth £6m, to provide a social sciences complex. This will comprise two large steel-framed buildings, two smaller buildings of traditional construction and the refurbishment of a town house. All will be five storeys. At Yate, near Bristol, the company has won a £3.2m contract to refurbish Yate shopping centre for MEPC. Also in Bristol the company has been awarded a £1.67m contract by Marks and Spencer for work on its Broadmead store.

LEGAL COLUMN

Spate of directories about firms raises questions on readership

By Robert Rice, Legal Correspondent

IN SPITE OF a severe and prominent "note to plagiarists" which warns that "there is no other source of such information," Mr John Pritchard's The Legal 500 has spawned a rival: Chambers & Partners' Directory of the Legal Profession 1990.

This is not to suggest that this latest entrant to the field of law firm directories is derived from Mr Pritchard's original research. It is not. Irritated partners and law firm marketing staff can attest to endless phone calls from staff at Chambers' recruitment agency gathering information for their own publication.

In many respects, however, they are similar. The Chambers directory covers the 1,000 largest law firms in England and Wales. The Legal 500, as its title suggests, covers only 500 "leading law firms." The Chambers directory also covers barristers' chambers. So, curiously enough, for the first time this year, does The Legal 500.

As a source of information about what law firms think about themselves, coupled with a few harmless subjective comments thrown in by their editors (you must not, after all, bite the hand that feeds you), these books are very handy.

But is there really room for two such similar publications? The market in law firm reference books is in danger of becoming swamped.

Mr Pritchard is compiling a similar book on European law firms as well as a who's who in the law. The International Financial Law Review is compiling a global law firm directory.

Then there are publications such as Crawford's Directory of City Connections, which lists law firms and their main corporate and commercial clients, the International Law List and the less-elaborate solicitors and barristers directories and diaries produced by Butterworths, Waterlows and soon, it seems, by the Law Society itself.

Is there really a market for all this information about law firms - a genuine thirst for knowledge about who is on the up-and-up in tax or personal injury or intellectual property? As one law firm marketing manager put it: "There is a limit to how much law firms want to read about themselves." How true, particularly when they already know what the book will say about them - as they have had a hand in writing their own entries.

Mr Pritchard charges nearly £3,000 for a full-page entry. This year a number of firms have taken two pages to describe themselves, which suggests that they must feel it is good value for money.

Many of them admit that they find The Legal 500 useful for recruitment purposes. Students frequently cite the book as their source of information about a firm when they are applying for jobs.

The big question is: how important is it in terms of getting clients and business? The Legal 500 is sent free to partners in the firms listed and to some assistant solicitors in those firms. It is also sent to company legal advisers and in-house lawyers and it can be purchased.

City lawyers, however, say that clients do not normally mention that they have seen the firm's name in The Legal 500 when the clients come to them for the first time. That may be different with some smaller firms in the provinces.

The Chambers directory operates on roughly the same basis. Law firms are therefore effectively buying advertising space in these publications. If more than one directory is to survive, law firms are going to start expecting more information from the publishers about the audience they are paying to reach.

* * *

LAST WEEK, apparently prompted by his thoughts about the Calcutt report on privacy and related matters, Mr Joe Haines, former political adviser to Lord Wilson, launched an extraordinary attack on the Bar in the Daily Mirror.

"No Sun journalist swims within a mile of a lawyer when it comes to insulting the innocent, telling lies, distorting words or inventing theories dressed up as facts," he wrote. "A barrister is a contract killer of innocent reputations, a hired gun with an expensive education. There is not a judge on the bench, or a QC practising before it, who has not won a case that ought, in justice, to have been lost.

"Harold Wilson had a collective noun for the Bar. He called it a 'cheat' of lawyers." There was much more, about the cab rank principle, restrictive practices and so on. I dare say the Bar had the odd collective noun for Harold Wilson, but leaving that aside, does it matter what Mr Haines thinks about barristers?

Fortunately, it is a fair bet that anyone who has had cause to use a barrister in recent years will disagree with him. But it shows just what the Bar is up against in improving its public image.

It also demonstrates Mr Haines' ignorance of the changes that have been taking place within the legal profession. With the aid of Mr Peter Cresswell, QC, the chairman of the Bar, perhaps we can put him straight on a few things.

Speaking to the Society of Conservative Lawyers in London last week, Mr Cresswell stressed the changes that the Courts and Legal Services Bill will introduce to the structure and working practices of the Bar and the steps it has already taken to sweep away some of its old restrictive practices.

The Bar's aim for the future would be to continue trying to ensure access to justice for all, Mr Cresswell said. That would be achieved by such measures as campaigning for increased availability of legal aid, stricter adherence to the cab rank rule and simplified court and tribunal procedures.

To do this, and in order for the independent Bar to survive, it would continue to need to recruit men and women of the highest quality, he said. It was therefore vital that nobody should be precluded from entering the profession through lack of means.

To ensure that this does not happen, the Bar has revolutionised funding for students in terms of grants and scholarships and introduced a system for funding pupillage to help barristers through their early years. It is introducing continuing professional education to maintain standards and examining a library system, common in Scotland and the Irish Republic, to complement the existing chambers system to ensure that nobody reaching the required standards will be unable to practise for lack of a seat in chambers.

The Bar is also strengthening its circuit system in order to encourage better regional justice. It has introduced direct access to other professions and it is building up its European and international work. Specialist associations, such as the Commercial Bar Association, have been formed to promote the Bar's services.

The Bar Council is encouraging the use of information technology by barristers. It is taking positive steps to combat racial discrimination and disadvantage at the Bar, giving strong support to the Government's proposal to extend the workings of the Race Relations Act and the Sex Discrimination Act to cover its members.

The Bar is by no means perfect, but it has come a long way in recent years and it deserves some credit.

* * *

AS AN example of how the Bar is looking to the long-term future, the London chambers of Mr Donald Keating, QC, which specialises in construction and engineering law, has opened an office in Paris, close to the International Arbitration Centre.

That is the first full-time presence established by a set of English barristers' chambers in France.

On the surface this looks like a brave move, and it is possible to detect the hands of the younger members of Mr Keating's chambers behind it. The idea will be to man the office by rotation.

The office should enable the barristers to offer clients in the construction industry specialist advice and representation from a location convenient for the Paris-based International Chamber of Commerce (ICC) and the International Federation of Consulting Engineers (FIDIC).

WORLD STOCK MARKETS

AUSTRIA — [illegible]

BELGIUM/LUXEMBOURG — [illegible]

DENMARK — [illegible]

FINLAND — [illegible]

FRANCE — [illegible]

FRANCE (continued) — [illegible]

GERMANY — [illegible]

GERMANY (continued) — [illegible]

ITALY — [illegible]

ITALY (continued) — [illegible]

NETHERLANDS — [illegible]

NORWAY — [illegible]

SPAIN — [illegible]

SWEDEN — [illegible]

SWITZERLAND — [illegible]

SOUTH AFRICA — [illegible]

JAPAN — [illegible]

HONG KONG — [illegible]

AUSTRALIA — [illegible]

AUSTRALIA (continued) — [illegible]

MALAYSIA — [illegible]

SINGAPORE — [illegible]

CANADA

TORONTO
Closing prices June 29

[illegible]

MONTREAL
Closing prices June 29

[illegible]

Total Sales 4,572,900 shares.

INDICES

NEW YORK

DOW JONES	June 29	June 28	June 27	June 26	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2880.69	2878.71	2862.13	2842.33	2935.89 (15/6)	2543.24 (30/1)	2935.89 (15/6/90)	41.22 (2/7/32)
Home Bonds	90.77	90.88	90.79	90.69	93.04 (3/1)	88.48 (2/5)	—	—
Transport	1144.34	1142.70	1140.88	1135.77	1212.77 (6/6)	1031.83 (30/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	210.01	208.63	208.63	206.93	236.23 (2/1)	203.09 (30/4)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 2901.98 (2896.04) Low 2865.84 (2850.50)

STANDARD AND POOR'S	June 29	June 28	June 27	June 26	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	358.02	357.63	355.14	352.06	367.40 (4/6)	322.98 (30/1)	367.40 (4/6/90)	4.40 (1/6/32)
Industrials	420.52	420.25	416.89	413.35	428.34 (4/6)	371.92 (30/1)	428.34 (4/6/90)	3.62 (21/6/32)
Financial	28.93	28.87	28.68	28.47	31.87 (3/1)	26.59 (27/4)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	195.48	195.18	193.87	192.47	200.21 (4/6)	178.43 (30/1)	200.21 (4/6/90)	4.46 (25/4/42)
Amex Mkt. Value	361.21	358.57	357.05	356.80	382.45 (5/1)	342.64 (24/4)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	462.28	460.38	456.89	455.38	468.86 (13/6)	410.72 (30/1)	485.73 (9/10/89)	54.87 (31/10/72)

	June 22	June 15	June 8	year ago (approx.)
Dow Industrial Div. Yield	3.77	3.67	3.71	3.57
	June 27	Jun 20	June 13	year ago (approx.)
S & P Industrial div. yield	2.97	2.93	2.90	3.09
S & P Indl P/E ratio	16.70	16.87	17.07	12.97

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Motel Six	2,880,400	16⅛	- 1⅞
A T & T	2,015,700	38½	- ¼
Am Express	1,990,300	30¾	+ ¼
Philip Morris	1,333,100	46½	+ ⅛
LA Gear	1,281,800	30⅞	+ 1⅞
Baxter Int	1,243,200	24	- ⅛
Citicorp	1,140,800	22⅛	- ⅛
Mnf. Hanover	1,127,500	34½	.
Bristol Myers	1,053,600	63⅞	- ½
Maxwell	1,046,700	11	- ..

TRADING ACTIVITY

† Volume (Millions)	June 29	June 28	June 27
New York	145.500	136.120	146.620
Amex	13.024	11.619	11.299
NASDAQ	(u)	148.824	137.453
Issues Traded	(u)	1,983	1,964
Rises	(u)	906	856
Falls	(u)	547	587
Unchanged	(u)	530	521
New Highs	(u)	63	37
New Lows	(u)	39	56

CANADA

TORONTO	June 29	June 28	June 27	June 26	1990 HIGH	1990 LOW
Metals & Minerals	3208.50	3186.00	3164.60	3134.80	3453.05 (4/1)	2850.80 (23/4)
Composite	3544.00	3530.00	3519.30	3495.20	4009.47 (3/1)	3334.20 (1/5)
MONTREAL Portfolio	1833.26	1823.45	1814.81	1804.61	2060.90 (3/1)	1720.25 (27/4)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	June 29	June 28	June 27	June 26	1990 HIGH	1990 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1500.7	1494.6	1504.4	1513.1	1713.7 (2/1)	1434.5 (30/4)
All Mining (1/1/80)	715.5	712.8	719.8	723.1	860.8 (5/1)	712.8 (28/6)
AUSTRIA						
Credit Aktien (30/12/84)	603.80	609.22	612.97	613.21	703.29 (19/3)	526.59 (2/1)
BELGIUM						
Brussels SE (Cash Mkt) (1/1/80)	6263.94	6251.49	6263.90	6258.27	6699.43 (12/1)	5568.16 (26/2)
DENMARK						
Copenhagen SE (3/1/83)	377.14	378.15	379.35	379.35	382.50 (15/6)	352.96 (25/4)
FINLAND						
Unitas General (1975)	546.8	549.5	552.5	556.3	677.3 (2/1)	546.8 (29/6)
FRANCE						
CAC General (31/12/82)	545.08	543.68	547.77	544.52	564.62 (30/5)	482.94 (26/2)
CAC 40 (31/12/87)	2035.03	2038.41	2036.96	2053.40	2129.32 (29/4)	1800.32 (26/2)
GERMANY						
FAZ Aktien (31/12/58)	795.64	806.71	797.56	797.45	830.92 (3/4)	732.71 (24/1)
Commerzbank (1/12/53)	2297.3	2329.8	2301.9	2302.3	2414.0 (3/4)	2151.5 (24/1)
DAX (30/12/87)	1879.90	1895.17	1901.46	1890.36	1968.55 (30/3)	1756.41 (24/1)
HONG KONG						
Hang Seng Bank (31/7/64)	3278.24	3273.28	3284.47	3292.35	3292.35 (26/6)	2738.24 (1/2)
IRELAND						
ISEQ Overall (4/1/88)	1689.11	1686.40	1688.42	1694.47	1893.10 (22/1)	1582.61 (2/5)
ITALY						
Banca Com. Ital. (1972)	(u)	752.19	746.26	747.29	763.52 (14/6)	646.73 (26/2)
JAPAN						
Nikkei (16/5/49)	31940.24	32106.19	32312.75	31571.77	38712.88 (4/1)	28002.07 (2/4)
Tokyo SE (Topix) (4/1/68)	2343.36	2358.40	2362.40	2323.35	2867.70 (4/1)	2058.82 (5/4)
2nd Section (4/1/68)	4200.81	4178.62	4156.77	4111.58	4284.68 (9/2)	3313.92 (5/4)
MALAYSIA						
KLSE Composite (4/4/86)	584.65	586.59	586.04	583.95	622.20 (20/2)	518.53 (2/5)
NETHERLANDS						
CBS Tdl.Rtn Gen.(End 1983)	266.5	266.7	266.7	267.5	284.0 (3/1)	240.1 (26/2)
CBS All Shr (End 1983)	198.5	198.9	198.7	199.3	206.3 (3/1)	184.2 (26/2)
NORWAY						
Oslo SE (Ind) (2/1/83)	825.62	822.74	824.38	828.39	859.05 (5/6)	781.67 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	882.98	895.41	899.26	905.30	1160.70 (21/3)	740.31 (6/6)
SINGAPORE						
SES All-Singapore (2/4/75)	434.20	437.78	439.91	430.62	443.34 (6/2)	401.34 (30/4)
SOUTH AFRICA						
JSE Gold (28/9/78)	1531.0§	1500.0	1458.0	1440.0	2230.0 (16/1)	1322.0 (20/4)
JSE Industrial (28/9/78)	2968.0§	2955.0	2949.0	2942.0	3211.0 (6/2)	2794.0 (25/4)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	720.00	732.64	740.01	736.42	928.82 (4/1)	688.66 (30/4)
SPAIN						
Madrid SE (30/12/85)	295.80	295.15	293.69	292.30	302.85 (4/2)	248.17 (2/4)
SWEDEN						
Affärsvärlden Gen. (1/2/37)	1309.7	1302.6	1292.7	1287.8	1317.88 (12/1)	1127.20 (2/4)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	830.0	823.3	823.2	822.7	838.8 (29/6)	737.6 (27/3)
TAIWAN**						
Weighted Price (30/6/66)	5157.45	(c)	4995.38	5294.12	12495.34 (10/2)	4995.38 (27/6)
THAILAND						
Bangkok SET (30/4/75)	1060.22	1057.06	1053.13	1037.38	1060.22 (29/6)	780.39 (7/2)
WORLD						
M.S. Capital Intl (1/1/70)	(u)	518.5	517.7	511.3	571.0 (4/1)	468.3 (2/4)

**Saturday June 23: Taiwan Weighted Price: (c). Korea Comp Ex. 747.12.
§ Subject to official recalculation.
Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000; JSE Gold – 255.7; JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Friday June 29 1990

	Stocks Traded	Closing Prices	Change on day
Nippon Steel	12.5m	556	-4
Fuji Photo Film	12.2m	4,720	+70
Sony	11.4m	9,080	+110
NKK	9.9m	600	+7
Canon	8.8m	1,880	+20
Shin-etsu Chemi	8.3m	1,830	+40
Kyocera	7.3m	8,830	+140
Pioneer	7.3m	6,480	+60
Sharp	6.6m	1,800	0
Daikin Industries	6.6m	1,900	-10

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Providence Capital Fd Mgrs Ltd (1000)H
30 Uxbridge Road, London W12 8PG 081-749 9111

European Acc	5	150.6	150.6xd	161.5	0.67	41156
European Inc	5	144.5	144.5xd	154.9	0.67	41155
Japan Acc	5	96.35	96.35	103.2	0.00	41160

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak. Inc VAT

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Touche Remnant Unit Tst Mngt Ltd – Contd.						
TR Income Growth	5¼	90.15	90.15	95.90	4.78	41530
TR Income Monthly	5¼	53.05	53.05	56.43	6.82	41531
TR Japan Growth	5¼	84.12	84.12xd	89.32	0	41532
TR Overseas Growth	5¼	68.43	68.43xd	72.95	0	41533
TR Smaller Cos	5¼	78.54	78.54	83.55	3.44	41534
TR Special Ops	5¼	85.15	85.15	90.58	4.35	41535
TR Mgd Eq Plan Acc	5¼	36.44	36.44	38.76	2.97	41536
TR Mgd Eq Plan Inc	5¼	34.17	34.17	36.35	2.97	41537
TR Wwide Sp Sit Acc	5¼	39.53	39.53	42.37	0	41538
TR Wwide Sp Sit Inc	5¼	39.49	39.49	42.33	0	41539
TR Pension Portfolio						
TR American Gwth ‡	6	28.91	29.29	31.05	0	46977
TR Eur Sp Sits ‡	6	35.93	36.46	38.63	0	46978
TR General Growth ‡	6	26.34	26.62	28.22	0	46979
TR Global Tech ‡	6	30.62	31.03	32.89	0	46980
TR Income Growth ‡	6	26.26	26.54	28.13	0	46981
TR Japan Growth ‡	6	26.30	26.53	28.12	0	46982
TR Mgd Equity ‡	6	28.03	28.33	30.03	0	46983
TR Overseas Growth ‡	6	29.32	29.60	31.48	0	46984
TR Smaller Cos ‡	6	18.56	18.76	19.88	0	46987
TR Special Ops ‡	6	17.57	17.76	18.82	0	46986
TR Stlg Liquidity ‡	6	26.56	27.02	28.15	0	46985
TR Wwide Sp Sits ‡	6	32.16	32.75	34.71	0	46988
Trades Union Unit Tst Mngrs (1200)H						
NLA Tower, Addiscombe Road, Croydon 081-686 4355						
TUUT	5	256.9	262.5	276.3	5.13	41540
Triton Fd Mngrs. Ltd. (1000)H						
Royal Ldn. Hse Colchester CO1 1RA 0206 764400						
Triton General	5¼	169.1	171.7	182.7	3.34	41541
Tyndall Unit Tst Mngrs Ltd (1600)F						
25 Bucklersbury, London EC4N 0800 373574						
Austral Value	5¼	39.90	39.90	42.31	—	41550
British Lion	5	89.00	89.00	94.35	4.03	41548
Accum Units	5	94.05	94.05	99.70	4.03	41549
Capital Defender	5	35.17	35.17xd	37.29	10.42	41542
Accum Units	5	42.38	42.28	44.70	10.42	41543
1992 Europegwth Acc	5	78.92	78.92	83.66	1.04	46673
Income	5	79.40	79.40	84.18	7.98	41544
Accum Units	5	91.41	91.41	96.90	7.98	41545
Smaller Co's	5	71.64	71.64	75.95	3.55	41546
Accum Units	5	74.78	74.78	79.28	3.55	41547
Tiger Accum H	5¼	75.24	75.24	79.77	1.85	46674
UK Unit Trust Managers Ltd (0905)F						
Worthing Road, Horsham, RH12 1SL 0403 40033						
British Growth	5¼	64.28	65.64	69.82	2.14	41551
Technical Analysis	5¼	63.43	64.17	68.26	1.30	41552
UTAM Ltd (1300)F						
1 White Hart Yard, London Bridge, SE1 071-407 5966						
Advisors, Henderson Crosthwaite Ltd						
Friars Hse Cap	5½	210.0	210.0	223.4	2.79	41553
Friars Hse Inc	5½	172.4	172.4	183.4	4.46	41554
United Charities Unit Trusts (1000)H						
Unicorn Hse, 252 Romford Rd, E7 081-534 5544						
United Charities	5	194.5	196.4xd	209.3	5.05	41555
Wardley Unit Tst Mngrs Ltd (1300)H						
3 Harbour Exchange Sq, London E14 9GJ 071-555 5055						
American ‡	5¼	67.06	67.06	71.72	1.5	41574
Intl Growth	5¼	80.37	80.37	85.95	0.8	41575
Income	5¼	126.0	126.0	134.7	6.2	41576
Japan Growth	5¼	219.7	219.7	234.9	—	41577
Pacific Perf	5¼	136.9	136.9	146.4	0.1	41578
Australia	5¼	54.58	54.58	58.37	3.5	41581
UK Growth	5¼	170.1	170.1	181.9	2.6	41582
European Growth	5¼	80.45	80.45	86.04	—	41583
Hong Kong	5¼	38.54	38.54	41.21	3.0	41584
Intl Income	5¼	19.78	19.78	21.15	8.0	41585
5 pm & Mlnn Gth	5¼	40.44	40.44	43.25	0.1	41586
Japan Smllr Cos	5¼	34.38	34.38	36.77	—	46995
Waverley Unit Tst Mngmt Ltd (1000)F						
13 Charlotte Sq, Edinburgh 031-225 1551						
Australasian Gold	6	9.85	9.993	10.62	0.00	41588
Pacific Basin	6	29.35	29.35	31.22	0.60	41589
Can Balncd Gwth ‡	6	43.86	43.86	46.65	0.10	41590
Global Bond ‡	4	[illegible]	0.9651	1.0053	7.82	41591
Penny Share	6	25.06	25.06	26.65	0.50	41592

	Bid Price	Offer Price	Yield Gross	City-line
Abbey Life Assurance Co Ltd – Contd.				
High Inc. Ser. 4	480.6	505.9	—	41618
Money Ser. 4	251.2	264.5	—	41621
Intl Ser. 4	115.3	121.4	—	47021
Custodian Ser. 4	105.5	111.1	—	47022
Pension Funds				
Property	637.3	670.9	—	41623
Equity	1190.0	1252.7	—	41624
Selective	385.6	405.9	—	41625
Managed	869.6	915.4	—	41626
Security	497.8	524.1	—	41627
Fixed Int.	267.0	281.1	—	41628
Indexed	159.6	168.0	—	41632
American	272.7	286.0	—	41630
Japan	318.4	335.2	—	41631
European	189.2	199.2	—	41629
High Income	133.6	140.7	—	46175
Ethical	123.5	130.0	—	46174
International	210.6	221.7	—	41633
Acuma Life Assurance Ltd				
The Glanty, Egham, Surrey TW20 9AT 0784 475333				
Managed	176.2	185.5	—	42158
World Growth	145.4	153.1	—	42159
UK Equity	205.7	216.5	—	42160
UK Small Companies	175.3	184.5	—	42161
European	153.8	161.8	—	42162
Far Eastern	304.3	320.3	—	42163
Nth American	111.1	116.9	—	42164
Fixed Interest	130.3	137.5	—	42165
Index Linked Stks	144.4	152.0	—	42166
Money	128.8	135.5	—	42167
Pen Managed	224.4	236.2	—	42168
Pen World Growth	160.0	168.4	—	42169
Pen UK Equity	292.4	307.7	—	42170
Pen UK Small Cos	221.1	232.7	—	42171
Pen European	151.2	159.1	—	42172
Pen Far Eastern	451.6	475.3	—	42173
Pen Nth American	113.2	119.1	—	42174
Pen Fixed Interest	158.1	166.4	—	42175
Pen Index Lnkd Stks	154.6	162.7	—	42176
Pen Money	148.7	156.5	—	42177
AEtna Life Insurance Co Ltd				
2-12 Pentonville Rd, London N1 9XD 0800 010575				
Life Funds (Accumulator Units)				
Squirrel	13.85	14.58	—	41636
Bear	13.99	14.73	—	41637
Owl	16.86	17.75	—	41638
Bull	15.13	15.93	—	41639
Stag	15.38	16.19	—	41640
Gilt-Edged	12.23		—	41641
Deposit	12.43		—	41642
North American	10.23	10.77	—	41643
European	12.08	12.72	—	41644
Property	8.05	8.48	—	41645
Index Linked	11.07	11.66	—	41646
Far Eastern	11.62	12.24	—	41647
UK Equity	12.12	12.76	—	41648
Fixed Interest	10.87	11.45	—	41649
Gilt Edged (B)	9.66	10.17	—	47023
1982 Series				
UK Equity	267.20	281.27	—	41651
North American	200.03	210.56	—	41652
Far Eastern	331.77	349.24	—	41653
Fixed Interest	188.51	198.44	—	41654
Cash Deposit	157.48	165.77	—	41655
Property	109.34	115.10	—	41656
Special Opportunities	263.66	277.53	—	41657
Managed	232.41	244.65	—	41658
Index Linked Fund	144.21	151.81	—	41659
Pre-1982 Series				
3 Way	429.98	429.99	—	41660
Equity	779.68	779.69	—	41666
Bond	428.86	428.87	—	41667
Property	208.59	208.60	—	41668
Overseas Investment	294.69	294.70	—	41669
Pension Funds (Accumulation Units)				
Squirrel	17.03	17.93	—	41670
Stag	17.46	18.38	—	41671

OTHER UK UNIT TRUSTS

[illegible]

INSURANCES

[illegible]

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

	Bid Price	Offer Price	Yield Gross	City-line
Norwich Union Life Insurance Soc.—Contd.				
Pensionmaster* & Unit-Linked Plan*				
Mixed Fund	405.5	426.8	—	43233
Ordinary Share Fund	604.3	636.1	—	43229
International Fund	167.7	176.5	—	43230
Property Fund	263.3	277.2	—	43231
Fixed Interest Fund	300.6	316.4	—	43227
Index-Linked Sec Fund	172.2	181.3	—	43228
Deposit Fund	227.1	239.1	—	43232
Norwich Units May 15	938.37		—	43234
*Prices as at June 19				
Junior Investment Plan				
With Profits Fund	99.54	104.78	—	40525
Int. Equity Fund	94.21	99.17	—	40436
Int. Bond Fund	96.77	101.87	—	40349
Pearl Assurance (Unit Funds) Ltd				
Thorpe Wood, Peterborough PE3 6SA 0733 63212				
Prop. Dist. (Gross)	168.9	177.8	—	43235
Prop. Acc. (Gross)	289.4	304.7	—	43236
Equity (Gross)	822.9	866.2	—	43237
Managed (Gross)	573.8	604.1	—	43238
Prop. Acc. (Net)	134.8	141.9	—	43239
Equity (Net)	189.6	199.6	—	43240
Managed (Net)	174.9	184.2	—	43241
Internat'nal (net)	167.1	175.9	—	43242
Gilt & Fxd Interest	105.8	111.4	—	43243
Money Fund	116.6	122.7	—	43244
Pearl Assurance (Unit Linked Pens) Ltd				
Ret Man (Series 1)	579.3	609.8	—	43245
Ret Man (Series 2)	196.4	206.8	—	43246
Ret Man (Series 3)	131.0	131.0	—	46462
Ret Cash	156.4	164.6	—	43247
Ret Cash (Series 3)	129.8	129.8	—	46463
Pegasus Assurance Ltd				
Broad Quay, Bristol BS1 4DJ 0272 230271				
Life Funds				
Managed Aggressive	105.1	110.7	—	43306
Managed Balanced	98.4	103.6	—	43346
Managed Cautious	94.7	99.8	—	43350

	Bid Price	Offer Price	Yield Gross	City-line
Prudential Assurance Co				
Holborn Bars, London EC1N 2NH 071-405 9222				
Pensions				
Managed June 27	250.8	261.3	—	43512
Prudential Holborn Life Ltd				
30 Old Burlington St, London W1X 1LB 071-439 3134				
Holborn Series I Life Funds				
Managed	560.3	589.8	—	46553
Equity	1146.6	1207.0	—	46554
Fixed Interest	380.7	400.8	—	46555
Property	433.0	455.8	—	46556
Cash	288.2	303.4	—	46557
International	395.3	416.2	—	46558
Holborn Series II Life Funds				
Managed	547.7	576.6	—	43513
Equity	1118.0	1176.9	—	43514
International	386.6	407.0	—	43515
Fixed Int	369.8	389.3	—	43516
Property	420.8	443.0	—	43517
Cash	280.4	295.2	—	43518
Pacific Basin	206.1	217.0	—	43519
North American	150.4	158.4	—	43520
European	192.4	202.6	—	43521
Holborn Balanced Gwth	115.2	121.3	—	43522
Holborn Strategic Gwth	115.4	121.5	—	43523
Prudential Holborn Pensions Ltd				
30 Old Burlington St, London W1X 1LB 071-439 3134				
Managed	584.8	615.6	—	43524
Equity	851.3	896.2	—	43525
Global Equity	245.1	258.0	—	43526
Fixed Interest	412.4	434.2	—	43527
Property	432.8	455.6	—	43528
Cash	179.9	189.4	—	43529
Index Linked Gilt	207.5	218.5	—	43530
Guaranteed	13.87		—	43531
International Money	211.7	222.9	—	43532
North American	74.6	78.6	—	43533
Japanese	125.4	132.0	—	43534
European	114.2	120.3	—	43535
Special Situations	119.7	126.1	—	43536

[illegible]

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

Money Market Trust Funds

Money Market Bank Accounts

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Currencies wait for D-Mark news

THE uncertainty surrounding the effects of German monetary union and the Soviet Communist Party Congress this week are the sort of events currency markets should thrive on. Instead, many analysts believe the major currencies could be locked in narrow ranges waiting for the release of the June US employment figures on Friday rather than moving on the latest worries about world political stability.

UK clearing bank base lending rate 15 per cent from October 5

Analysts believe the immediate impact of monetary union on the D-Mark will be limited. The Bundesbank left monetary policy unchanged at its fortnightly council meeting last week on the assumption that its monetary stance is tight enough to cope with the after effects of currency union.

Meanwhile, the US dollar is stuck, with the Treasury still not able to convince the Federal Reserve that the economy needs a looser monetary policy. On the other hand, President George Bush's remarks that taxes could be raised in order to cut the budget deficit will prevent the dollar rising much above current levels. Of greater interest will be the release of the June non-farm payroll figures on Friday. A rise of 140,000 is expected, slightly less than in May, but that will be unlikely to lead to an immediate easing in US interest rates.

The only major currency which shows any willingness to move away from its current levels is the Japanese yen, which until recently has been depressed by worries over the speed of monetary growth. But if the Bank of Japan dashes market hopes and leaves rates unchanged it could also begin to drift.

£ IN NEW YORK

June 29	Close	Previous Close
£ Spot	1.7485-1.7495	1.7380-1.7390
1 month	0.97-0.96pm	0.96-0.95pm
3 months	2.76-2.74pm	2.74-2.72pm
12 months	9.30-9.23pm	9.19-9.22pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

June 29	Bank of England Index	Morgan** Guaranty Changes %
Sterling	91.4	-20.8
U.S Dollar	66.8	-11.2
Canadian Dollar	104.1	+0.9
Austrian Schilling	109.5	+11.5
Belgian Franc	111.2	-2.3
Danish Krone	110.3	+4.6
Deutsche Mark	118.1	+23.9
Swiss Franc	113.2	+22.3
Guilder	114.1	+15.7
French Franc	104.3	-12.3
Lira	101.0	-18.4
Yen	121.1	+49.2

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

OTHER CURRENCIES

[illegible]

CHICAGO

[illegible]

POUND SPOT- FORWARD AGAINST THE POUND

June 29	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7385 - 1.7480	1.7440 - 1.7450	0.96-0.94cpm	6.53	2.76-2.73pm	6.29
Canada	2.0315 - 2.0380	2.0335 - 2.0345	0.28-0.19cpm	1.39	0.65-0.53pm	1.16
Netherlands	3.26½ - 3.28½	3.26½ - 3.27½	1⅞-1⅝cpm	6.65	5¼-5pm	6.27
Belgium	59.58 - 59.95	59.60 - 59.70	28-27cpm	5.53	78-77pm	5.20
Denmark	11.03¾ - 11.09¾	11.05 - 11.06	4⅛-3⅞orepm	4.41	12⅛-11⅞pm	4.30
Ireland	1.0800 - 1.0880	1.0825 - 1.0836	0.43-0.38cpm	4.49	1.28-1.16pm	4.51
W. Germany	2.90¼ - 2.92	2.90¼ - 2.91¼	1⅝-1½pfpm	6.71	4⅝-4½pm	6.37
Portugal	254.65 - 256.40	254.65 - 255.65	62-27cpm	2.09	58-28pm	0.67
Spain	178.10 - 179.20	178.10 - 178.40	3-1cpm	0.13	6-2pm	0.09
Italy	2126½ - 2140½	2132½ - 2133½	8-6lirepm	3.94	20-18pm	3.56
Norway	11.16 - 11.20½	11.16½ - 11.17½	3⅞-3½orepm	3.96	10⅛-9¼pm	3.58
France	9.75 - 9.80	9.75½ - 9.76½	4⅛-3⅞cpm	4.92	11⅛-11pm	4.53
Sweden	10.50½ - 10.55½	10.51¾ - 10.52¾	2⅞-2⅜orepm	2.85	6⅛-6pm	2.35
Japan	265 - 266¼	265 - 266	1⅞-1½ypm	7.34	4⅝-4½pm	6.87
Austria	20.41 - 20.51	20.42 - 20.45	10⅞-10⅛gropm	6.17	31⅝-29½pm	5.98
Switzerland	2.46½ - 2.47½	2.46½ - 2.47½	1⅛-1⅛cpm	5.77	3⅝-3⅜pm	5.67
ECU	1.4030 - 1.4085	1.4075 - 1.4085	0.58-0.55cpm	4.82	1.55-1.50pm	4.33

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.30-5.26cpm 12 month 9.33-9.23cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

June 29	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7385 - 1.7480	1.7440 - 1.7450	0.96-0.94cpm	6.53	2.76-2.73pm	6.29
Ireland†	1.6020 - 1.6110	1.6090 - 1.6100	0.27-0.22cpm	1.83	0.72-0.62pm	1.67
Canada	1.1640 - 1.1710	1.1660 - 1.1670	0.50-0.54cdis	-5.35	1.49-1.54dis	-5.20
Netherlands	1.8695 - 1.8845	1.8735 - 1.8745	0.04-0.02cpm	0.19	0.01pm-0.02dis	-0.01
Belgium	34.15 - 34.40	34.15 - 34.25	1.00-5.00cdis	-1.05	4.00-13.00dis	-0.99
Denmark	6.32¾ - 6.37	6.33½ - 6.34	1.05-1.25oredis	-2.18	3.05-3.55dis	-2.08
W. Germany	1.6600 - 1.6735	1.6650 - 1.6660	0.03-0.01pfpm	0.14	0.05-0.02pm	0.08
Portugal	146.30 - 146.90	146.45 - 146.55	45-65cdis	-4.50	200-250dis	-6.13
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EXCHANGE CROSS RATES

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

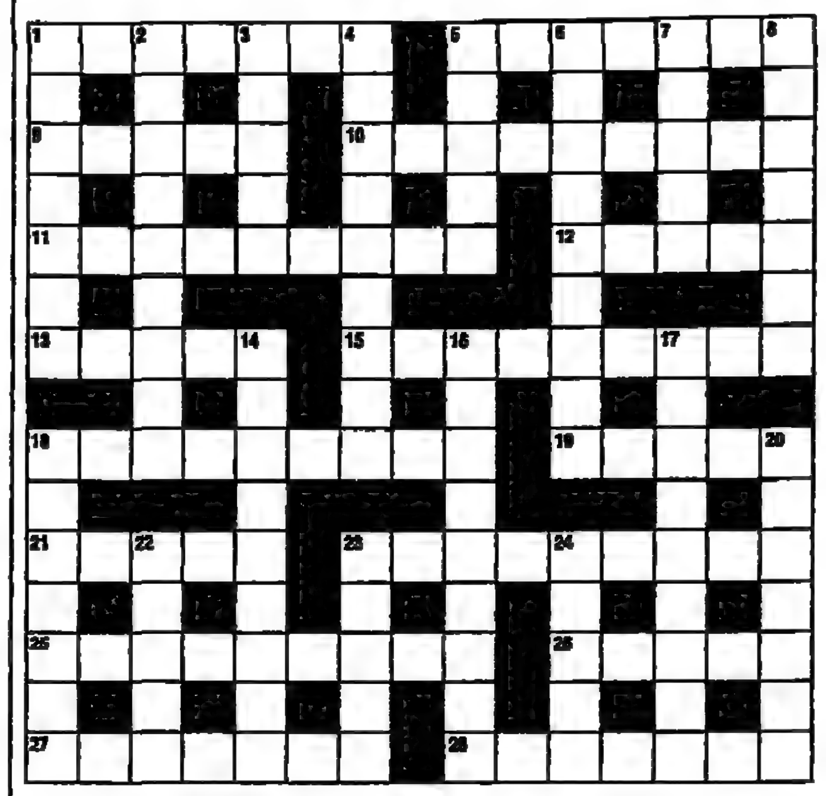
NATIONAL AND REGIONAL MARKETS	FRIDAY JUNE 29 1990								THURSDAY JUNE 28 1990					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	% chg ($) since 29/12/89	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/89	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1990 High	1990 Low	Year ago (approx)
Australia (80)	141.52	−6.5	120.27	136.20	122.54	118.84	−6.7	5.85	139.07	118.53	134.68	120.61	117.89	158.31	125.85	131.09
Austria (19)	256.30	+40.7	217.82	246.67	221.93	221.52	+38.5	1.22	258.30	220.15	250.14	224.00	223.49	285.83	193.15	120.99
Belgium (61)	150.83	−2.5	128.18	145.15	130.60	127.21	−6.3	4.54	150.98	128.68	146.20	130.93	127.15	160.02	132.11	128.65
Canada (119)	137.52	−9.6	116.87	132.34	119.07	116.18	−9.0	3.49	136.60	116.43	132.28	118.45	115.73	153.61	130.37	140.13
Denmark (33)	257.71	+6.4	219.02	248.02	223.14	222.13	+2.5	1.30	258.72	220.51	250.55	224.36	223.44	261.19	236.69	200.37
Finland (26)	135.00	+1.3	114.73	129.93	116.90	110.88	−2.0	2.47	134.20	114.38	129.96	116.38	110.50	152.29	129.99	140.27
France (124)	160.62	+2.9	136.50	154.57	139.07	140.97	−0.4	2.91	160.50	136.79	155.41	139.17	141.05	168.85	141.69	118.68
West Germany (92)	133.59	+8.0	113.58	128.58	115.67	115.67	+6.3	1.94	135.22	115.25	130.97	117.26	117.26	137.71	122.05	88.71
Hong Kong (48)	135.61	+15.8	115.25	130.51	117.43	135.58	+15.5	4.63	135.20	115.23	130.92	117.25	135.19	135.95	112.24	94.17
Ireland (17)	189.21	+4.2	160.80	182.10	163.83	165.65	+0.6	2.64	189.34	161.37	183.36	164.19	165.86	198.57	172.72	133.05
Italy (96)	108.16	+9.9	91.92	104.09	93.65	98.77	+5.9	2.38	107.70	91.79	104.29	93.39	98.49	109.26	91.85	84.30
Japan (454)	147.27	−25.4	125.16	141.73	127.53	141.73	−21.0	0.59	146.91	125.22	142.27	127.42	142.27	197.26	124.40	170.97
Malaysia (35)	229.85	+0.4	195.34	221.20	199.02	239.90	+0.8	2.26	230.74	196.66	223.44	200.09	240.87	245.32	204.15	181.29
Mexico (13)	495.74	+52.3	421.31	477.10	429.26	1550.98	+62.0	0.33	500.23	426.35	484.43	433.80	1583.94	549.66	324.53	258.23
Netherland (43)	141.83	−1.4	120.54	136.50	122.81	121.31	−3.3	4.65	141.54	120.64	137.07	122.75	121.36	145.66	130.43	118.57
New Zealand (17)	64.95	−9.9	55.20	62.51	56.24	58.56	−9.1	7.57	64.93	55.34	62.88	56.31	58.72	76.36	59.57	65.70
Norway (23)	235.27	+17.7	199.95	226.43	203.72	204.46	+14.3	1.47	234.21	199.62	226.81	203.11	203.93	245.90	202.34	178.21
Singapore (25)	200.36	+13.1	170.28	192.82	173.48	169.89	+9.5	1.99	202.67	172.74	196.27	175.75	171.85	207.93	179.70	159.16
South Africa (60)	176.90	−10.0	150.34	170.25	153.17	156.24	+2.7	3.82	172.58	147.09	167.12	149.65	153.65	251.39	170.00	151.58
Spain (42)	170.94	+4.8	145.27	164.51	148.01	132.54	−1.9	4.02	170.22	145.08	164.84	147.61	132.18	170.94	132.84	148.24
Sweden (34)	224.83	+17.1	191.08	216.38	194.68	200.78	+14.0	2.02	224.32	191.19	217.24	194.53	200.57	224.83	173.89	165.35
Switzerland (67)	105.11	+11.7	89.33	101.18	91.02	92.24	+2.5	2.23	104.85	89.36	101.54	90.93	91.85	105.37	88.75	80.08
United Kingdom (304)	167.75	+5.7	142.57	161.43	145.24	142.57	−2.3	4.76	166.12	141.59	160.86	144.05	141.59	168.46	139.87	137.70
USA (537)	144.68	+1.1	122.96	139.25	125.28	144.68	+1.1	3.36	144.57	123.22	140.01	125.37	144.57	148.55	130.61	129.67
Europe (981)	150.95	+6.0	128.29	145.28	130.71	129.22	+0.7	3.53	150.57	128.33	145.82	130.58	129.13	150.97	135.57	117.13
Nordic (116)	209.55	+11.8	178.09	201.67	181.45	176.52	+8.4	1.70	209.47	178.53	202.85	181.65	176.75	209.83	185.01	161.80
Pacific Basin (659)	146.52	−23.9	124.52	141.01	126.87	140.36	−19.8	0.92	146.10	124.53	141.49	126.70	140.82	192.75	124.63	166.64
Euro−Pacific (1640)	148.71	−13.9	126.39	143.11	128.76	136.48	−12.7	2.00	148.31	126.41	143.62	128.61	136.70	174.18	130.35	146.92
North America (656)	144.15	+0.5	122.51	138.75	124.84	142.79	+0.5	3.37	143.99	122.72	139.46	124.89	142.66	147.87	131.02	130.20
Europe Ex. UK (677)	139.32	+6.3	118.40	134.11	120.66	120.86	+2.8	2.73	139.62	119.00	135.23	121.10	121.25	139.62	124.81	103.94
Pacific Ex. Japan (205)	136.84	+1.4	116.29	131.71	118.50	121.35	+1.2	5.06	135.69	115.65	131.42	117.68	120.92	139.32	122.53	114.68
World Ex. US (1832)	148.82	−13.6	126.47	143.23	128.86	136.36	−12.3	2.06	148.36	126.45	143.69	128.66	136.54	173.77	131.30	146.80
World Ex. UK (2065)	144.12	−10.5	122.48	138.71	124.81	138.69	−8.7	2.25	143.92	122.66	139.38	124.82	138.83	162.00	130.80	138.92
World Ex. So. Af. (2309)	146.03	−9.0	124.10	140.55	126.45	138.85	−8.2	2.50	145.72	124.20	141.13	126.38	138.95	161.84	131.95	139.63
World Ex. Japan (1915)	147.13	+2.6	125.04	141.61	127.42	137.74	+0.7	3.50	146.80	125.12	142.18	127.33	137.58	147.88	134.62	125.00
The World Index (2369)	146.21	−9.0	124.26	140.72	126.61	138.97	−8.1	2.51	145.88	124.34	141.28	126.52	139.05	162.05	132.25	139.70

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

Constituent changes: Addition: Holzstoff (Reg.)(Switzerland)(28/6). Deletions: Paribas (Certs.)(France)(26/6) and Kali-Chemie (West Germany)(29/6).

CROSSWORD

No.7,278 Set by MUTT



ACROSS

1 The fruit of muttered utterances on boards (7)
5 Act part of hag with charm (7)
9 Intended to get myself a book (5)
10 An oriental rowing with a Scandinavian (9)
11 Oh! if a pink could be mistaken for a red hot poker (9)
12 Something more is out of context rather (5)
13 Ring in feature of strangler (5)
15 Method for processing the quince (9)
18 Reportedly did wrong in returning animal; this got revoked (9)
19 Hatred – or love? hazy about what's acceptable (5)
21 Scarf presented by a terrific husband (5)
23 All wrapped up and ready for the holidays? (9)
25 Legs meant to be removed in parts (9)
26 From first beginnings in radio Any Questions intrigued the countryman (5)
27 Metal harness maker finds gold in ship (7)
28 In the cold wind leaves can be seen to fall away (7)

DOWN

1 Note relative put butter first in baking dish (7)
2 Classy girl: "I'm going to love America!" Nobody disagrees (9)
3 A letter from Kuwait, chargeable (5)
4 Was better off when in debt, fee is ludicrous (9)
5 Country of the rumba beat (5)
6 Lapsed tenure, who is to be put out? – for what purpose? (9)
7 Wrote Keats: "Go not to Lethe neither . . ." dance? (5)
8 Fowl-pest found to be attributable to a poisonous plant (7)
14 A nice pure eccentric of refined tastes (9)
16 Prompted to introduce measure after Director-General got clubbed (9)
17 Living on the desert one could disappear in it (9)
18 Not saying yes it's true without a lot of fuss (7)
20 Second of three spouses assists with delivery (7)
22 Soldier held up in vehicle could do with a smoke (5)
23 Call father a writer? (5)
24 A politician I would make an excuse for (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday July 14.

JOTTER PAD

LONDON SHARE SERVICE

BRITISH FUNDS

[illegible]

BRITISH FUNDS—Contd

[illegible]

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Contd

[illegible]

CANADIANS

[illegible]

Continued on next page

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS – Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

هكذا من الأصل

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

MOTORS, AIRCRAFT TRADES — Contd

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY — Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

INVESTMENT TRUST

INVESTMENT TRUST — Contd

INVESTMENT TRUST — Contd

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

WATER

OIL AND GAS

OIL AND GAS — Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

MINES — Contd

Miscellaneous

THIRD MARKET

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1. γ	830xd	1.5
Finlay Pkg. 5p... γ	55	3.8
Holt (Jos) 25p.... γ	1310	0.8

IRISH

Cap. 8½% Ln. 1991	£98¼	0.3
9pc Cap Ln. 1996.	£95¼	0.5
Fin. 13% 97/02	£114	1.2
Arnotts	190	-1.0
Carrol (P.J.J.)... γ	120	-14.3
Hall (R. & H.)	165	.....
Heiton Hldgs... γ	80	6.7
IRG	201	..
United Drug	160	....

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	48
Amstrad	7
Astec (BSR)	6
BAT	62
BOC Grp	48
BTR	37
Barclays	34
Blue Circle	21
Boots	24
Bowaters	40
Brit Aerospace	47
British Steel	13
Brit. Telecom	25
Cadburys	30
Charter Cons	42
Comm Union	41
Courtaulds	29
Eurotunnel	55
FKI	7
FNFC	20
Gen Accident	93
GEC	18
Glaxo	68
Grand Met	53
Guardian	28
GKN	33
Hanson	20
Hawker Sidd	53
ICI	99
Ladbroke	27
Legal & Gen	34
Lex Service	28
Lloyds Bank	25
Lucas Inds	13
Marks & Spencer	19
Midland Bk	24
Nat West Bk	30
P & O Dfd	52
Polly Peck	39
Racal Elect	19
RHM	30
Rank Org Ord	70
Reed Intnl	38
STC	21
Sears	9
SmKl. Beecham A	48
TI	39
TSB	11
Tesco	19
Thorn EMI	62
Trust Houses	24
T&N	18
Unilever	58
Vickers	19
Wellcome	57

Property

Brit Land	32
Control Secs	4
Land Securities	45
MEPC	45
Mountleigh	13

Oils

Aviva Petlm	5
Brit Petroleum	28
Burmah Oil	55
Conroy Petlm	10
Gaelic Res	3½
Premier	9
Shell	40
Tuskar Res	5½
Ultramar	31

Mines

Lonrho	21
RTZ	58

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

4pm prices June 29

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- A - A - A -								
37½	19	AAR	.48	2.0	16	1449	24¼	23¾	24	+1
9⅞	8	ACM n	1.01	12.		43	8⅝	8½	8⅝	
11⅝	9⅞	ACMIn	1.26	12.		318	10¼	10⅛	10⅛	+ ⅛
9¾	7⅛	ACM M	n1.01	13.		254	8	7⅞	8	+ ⅛
12⅝	10	ACMMM				108	11	10⅞	10⅞	
11½	9⅞	ACM Sc	1.26	13.		517	10⅛	10	10	− ⅛
9⅝	8¼	ACMSp	1.01	12.		z412	8⅝	8⅛	8⅝	+ ⅛
24⅝	14⅞	AL Lab	.16	.7	21	253	23⅛	22⅞	23	+ ⅛
5⅝	2⅛	AM Inti				249	2½	2⅜	2½	
23⅛	10⅛	AM In pf	2	16.		110	12¼	12⅛	12⅛	+ ⅛
107¼	52½	AMR			12	1813	64⅝	63¾	64½	+ ⅛
24⅞	22⅛	ANR pf	2.12	8.9		4	23⅞	23⅞	23⅞	+ ⅛
4⅜	3	ARX				212	3⅜	3¼	3⅜	+ ⅛
72⅞	40⅛	ASA	3a	6.6		2282	45¾	44⅛	45½	+1
47½	28⅛	AbtLab	s.84	2.0	21	7070	42	41	41½	− ½
16⅛	11¼	AbitIbi	g .50			214	13⅝	13⅛	13½	+ ⅛
12⅛	8	AcmeC	.40	4.9	10	60	8⅛	8	8⅛	
9⅜	7⅞	AcmeE	.32	3.8	10	4	8½	8½	8½	
41⅞	28⅞	Acuson			23	357	39⅛	38⅛	38⅞	+ ⅛
18½	13⅞	AdaEx	2.09e	13.		99	16⅛	16	16⅛	+ ⅛
16⅞	9⅛	Adobe				670	11⅞	11½	11½	− ⅛
11⅜	6⅞	AMD			20	2728	9½	9⅛	9⅜	
33½	28⅛	AMD pf	3	9.4		11	31⅞	31½	31⅞	+ ⅛
10⅛	3⅞	Advest	.16	3.6	53	82	4⅛	4⅛	4⅛	
62½	45⅛	AetnLf	2.76	5.3	9	927	52⅝	51⅞	52⅛	+ ½
13⅞	9⅛	AflPb	.24	2.2		673	10⅞	10⅝	10⅞	+ ⅛
25	16⅛	Ahmans	.88	4.3	9	1629	20⅞	20⅛	20½	+ ⅜
59	40	AirPrd	1.44	2.5	15	414	58½	58⅛	58½	+ ⅜
24⅛	13⅞	AirFrt	s		14	861	23⅛	21	21	−2
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 31

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
101½	77⅞	RalsPur	1.86	2.0	17	822	93¼	91⅞	91⅞	-1½
6⅞	3⅞	RangrO	.08e	1.0	20	2075	6¼	6⅛	6⅛	+⅛
39⅛	28⅛	Rayonr	.32	1.0	209	730	33⅞	33⅛	33⅞	
22⅞	15	RJamF	.24	1.2	8	36	19⅝	19⅞	19⅝	+⅛
25½	18⅝	Rayonr	3.60	16.	6	237	22⅛	21⅞	22⅛	+⅜
2⅞	1⅞	viRaytc			3	30	2⅛	1⅞	2⅛	+⅛
85	60	Raythn	2.40	3.8	8	x1727	62½	61⅞	62⅛	+½
28½	21	RdrDg	n.12e	.5		1365	25⅞	25⅛	25⅞	+⅝
5	15-16	RdgB n				30	1⅞	1⅝	1⅞	+⅛
16⅞	14	REIT	1.42	9.8	12	54	14⅞	14⅝	14⅞	+⅛
15¼	13⅞	RltRat	1.72	12.	8	4	14	14	14	
12⅞	4⅛	RecnEq				255	5½	5	5½	+½
20	12⅞	Reebok	.30	1.7	11	1487	17⅝	17¼	17⅝	+⅜
13	7⅞	Reece	.05j			15	7⅜	7⅜	7⅜	+⅛
½	5-32	Regal				8	11-32	5-16	5-16	-1-32
15⅞	10	ReichTc	1.52	15.	6	11	10⅞	10¼	10⅞	
8⅞	4⅞	RelGrp	.32	6.1	131	73	5⅜	5¼	5¼	+⅛
26	17	Repsol	n.84e	3.3		6066	u25⅛	24⅞	25⅛	+⅛
5⅞	3⅞	RepGyp	.16e	5.1	29	27	3⅝	3⅝	3⅝	+⅛
52⅞	42½	RepNY	1.32	2.7	350	150	49	48⅝	49	
11⅛	1⅞	Rexene				666	2⅞	2⅝	2⅞	+⅛
29½	18⅞	RoyRey	.80	4.1	8	217	20⅛	19⅞	19⅞	-1
60⅛	48½	RoyMtl	1.80	3.1	7	1490	58½	57⅞	57⅞	-½
19	14⅞	RhP pfA				109	17½	17½	17½	-¼
3½	1⅞	RhnP wt				93	2⅝	2⅝	2⅝	
22	18½	RbnPl n				180	19⅞	19⅞	19⅞	
41⅛	28½	RiteAid	.90	2.6	14	625	34⅞	33⅞	34⅛	+⅛
11-32	3-64	RvrOak				30	1-16	1-16	1-16	-1-64
19¼	14½	RbtHlf			13	8	15⅝	15½	15⅝	
14⅛	9⅞	Robtsn			27	79	11⅛	10⅞	11	+⅛
22⅛	17½	RochG	1.58	8.2	10	x79	19⅛	18⅞	19	
45¼	29⅞	RochTl	s1.46	4.5	17	219	32⅞	31⅞	32⅛	-⅛
22⅛	16¼	RckCtr	1.88	10.	17	1435	18⅝	18¼	18⅜	+¼
28⅛	19¼	Rockwl	.76	2.8	11	4222	27⅞	27¼	27⅜	-⅛
7⅞	6⅛	RodRen				78	6⅞	6⅞	6⅞	
37½	28⅛	RohHaas	1.20	3.5	13	871	34⅞	34	34⅞	+⅞
33⅞	18½	Rohr			308	88	24⅛	24½	24½	
14⅞	9⅞	RollinE	.08	.5		1478	13½	13⅛	13⅜	+⅛
21	15⅞	Rollins	.56	2.8	20	87	20⅛	20	20⅛	+⅛

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14⅞	7⅞	WyleLb	.28	2.1	14	233	13½	13⅛	13½	+⅛
27½	18	Wynns	.60	2.8	14	34	21½	21	21½	+⅝
		– X – Y – Z –								
68½	45⅞	Xerox	3	6.4	8	1638	47⅛	46¼	46⅞	+⅛
34	21¼	XTRA	.48a	2.0		70	23⅞	23⅝	23⅞	+⅛
27⅞	18¾	XTRA pf1.94		9.5		6	20⅜	20⅜	20⅜	+⅛
4¼	1½	Zapata				1798	1⅝	d1½	1⅝	
12⅛	5⅞	Zemex				48	5⅞	5⅞	5⅞	-⅛
⅞	⅛	Zemex rt				64	⅜	⅜	⅜	
19⅞	7⅞	ZenithE				702	8½	8⅛	8⅜	
21⅛	13½	ZenNtl	.88	5.7	9	88	15⅜	14⅞	15⅛	+⅜
9⅞	5⅝	Zenix	.90	15.		114	6	5⅞	5⅞	
18½	12⅞	Zero s	.40	2.8	14	167	14½	14¼	14⅜	+⅛
49	34	Zurnin	.75	1.6	21	844	48½	47	48½	+1⅝
12⅝	10⅞	Zweig	1.21e	11.		420	11⅜	11¼	11⅜	
10	9	ZweigTl	.96	11.		1511	9⅜	9⅛	9⅛	-⅛

Sales figures are unofficial.Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months.g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months.plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

NASDAQ NATIONAL MARKET

4pm prices June 29

AMEX COMPOSITE PRICES

4pm prices June 29

The Business Column

Teamwork lessons from the World Cup

IN MOST respects, the football fraternity has far less to teach big business than it has to learn from it. Soccer clubs are forever being told to run themselves in a more "business-like" manner, and a few of them are already benefiting from the new generation of professional commercial management which has begun to infuse the game.

On one point, however, the boot is on the other foot: the motivation and rewarding of cross-disciplinary teams.

Thanks to the World Cup, the power of teamwork has been demonstrated almost nightly on our TV screens in recent weeks, to a global audience which must include many business executives.

Whether the team has consisted mainly of workaday players (like the English and Irish) or of manifest stars (like the Italians and West Germans), the force of teamwork has been self-evident: not merely in terms of morale, but in the players' willingness and ability to switch roles.

Motivating a group of soccer players may seem child's play compared with doing the same in business: the team is small, the goal is crystal clear, and the required period of peak performance is relatively short – a few weeks for the World Cup or a few months of domestic competition.

Collective rewards

But there more penetrating reasons, too, why football players tend to be better team-workers than their counterparts in business. Prime among them is the provision of team rewards.

Soccer players are normally rewarded for a mixture of individual performance and teamwork. In the World Cup, most incentives have been team-wide, and many teams have also pooled individual players' incidental earnings from product endorsements, interviews and so forth.

In virtually all business organisations, in contrast, financial incentives are overwhelmingly individual. An element of group bonus or profit sharing may be provided, but this is usually related to the performance of the organisation as a whole, rather than that of the employee's team of immediate colleagues.

This is in spite of the fact that the performance of small, cross-disciplinary teams and task forces is becoming as vital to the success of business organisations as collaboration between forwards, midfield players, defenders, and goalkeepers is to soccer teams.

Business pundits have been advocating greater teamwork for at least eight years, and an eager corporate audience – from Ford to many lesser fry – has been trying to implement their message for at least five. Yet few companies have so far succeeded in installing teams which are anything like as cohesive, fast-moving and effective as those currently on the Italian football field – or, for that matter, in the Japanese business world.

Poor tactics

One top US multinational, which outsiders have admired for decades as an apparent model of teamwork, admits to intense dissatisfaction with its own team performance.

Senior executives compare their past approach to, at best, that of a set of teams in a relay race, with members from one specialist department passing each project on to the next department, and so forth. In today's competitive conditions, such tactics are both slow and inefficient.

More cynical insiders liken the company's behaviour to a "team" of star individual gymnasts, whose ability to collaborate is almost non-existent.

What the company says it now aspires to is precisely the sort of collaboration displayed by an effective football team: a degree of interchangeability between positions, and the rapid passing of the ball (or project) from one member to another so that goals are really scored by the team as a whole, not by individuals.

To achieve this ideal, the company will have to overcome its personnel department's reluctance to allow team incentives. As things stand, complains one executive, "there's virtually nothing that gives any encouragement whatsoever to teams". Maybe the company should start a soccer club.

Christopher Lorenz

MONDAY INTERVIEW

Balancing man and nature

Jose Lutzenberger, Brazil's Minister of Environment, speaks to **Robert Graham**

A more unlikely senior government figure could scarcely be found than Mr Jose Lutzenberger, Brazil's Minister of the Environment. He has spent the best part of the past 20 years doing battle with government and big business on environmental issues.

But this 64-year-old ecologist does not see himself as a poacher turned gamekeeper. Rather, Mr Lutzenberger wants to be the inspirational force behind a change in the rules of the environmental game both in Brazil and the world at large. Indeed, his acceptance of the job in Brazil's new reforming administration immediately converted him into a symbol of President Fernando Collor de Mello's determination to adopt a fresh approach towards environmental issues.

"I genuinely believe he (Collor) is committed to environmental policies. I do not in any way feel co-opted," he says. He has stated on several occasions that he will resign if he feels compromised. But it is still far from clear whether he can achieve a happy symbiosis of his thinking and the complex development needs of a country such as Brazil.

Almost aggressively he fights against ministerial pomp, and when interviewed was in jeans and jacket. With a tall, lean frame and long, greying hair, he cuts a striking figure. "I haven't changed at all," he says with a mischievous smile. He still retains most of his important information on used envelopes and scraps of paper,testimony to his commitment to recycling.

Currently he has a personal staff of 15 which also has responsibility for controlling the environment agency, Instituto Brasileiro do Meio Ambiente e Recursos Naturais. Like all government bodies, Ibama is caught up in President Collor's plan to carry out staff cuts across the board, of 20 to 25 per cent, as an austerity measure. This is currently being challenged in the courts.

"Ibama has a staff of 1,300 in Brasilia, yet only around 12 in the whole of Amazonia," Mr Lutzenberger says. He is deeply critical of past governments who have padded the federal capital with soft jobs at the expense of the field. He wants to turn this ratio on its head.

Amazonian development he would like to halt. "We have to concentrate on the land that has already been cleared, most of which has been abandoned. We must encourage the settlers to stay to recuperate the soil. In the past they moved on because of a lack of awareness of how to regenerate the soil." The Government itself can do far more, he believes, by simply becoming an active agent.

"Previous governments showed no will (to control development). Every day they got satellite photographs... These show up river pollution, illegal gold digging. But almost nothing happened."

Two satellites provide pictures which reach the Government at noon each day, and by early afternoon, it is quite feasible to dispatch helicopters to inspect, he maintains. But this touches on a potential source of conflict. He would like to use the armed forces in an environmental protection role – something which the latter view with suspicion.

Yet without adequate policing almost nothing can be achieved. It is not enough, his supporters say, for well-publicised one-off sorties by the air force to destroy illegal landing strips used by gold diggers. Destroying these airstrips was one of his first actions.

Policing is also central to any decision on the controversial road 364 opened up through the western state of Rondonia. The previous government planned to link the 364 through to Acre state and then on to the Peruvian frontier with eventual access to the Pacific. This was also a Collor campaign pledge.

Mr Lutzenberger opposes this road, arguing that at present the area cannot be properly controlled to prevent illegal deforestation by settlers. It would also encourage the rapacious Asian timber trade. The road project, however, is being keenly canvassed by the population of Acre and endorsed by the powerful soya bean exporters, who would like a Pacific outlet.

Another obvious conflict concerns Brazil's energy needs and further development of the Amazon Basin hydro-electric potential. He opposes such projects on ecological grounds and because they threaten the diminishing Indian peoples. If he manages to block such development, then this will force an awkward re-think of alternative projects elsewhere.

Mr Lutzenberger is motivated not simply by the seductive prospect of putting his ideas into practice from the corridors of power. He is impressed by Collor. "He wants to take the car (Brazil) out of the mud. If he fails, Brazilians will be totally disillusioned... Now that he has been elected Brazil has become a serious country again."

Mr Lutzenberger only met the Brazilian President after the latter's election victory last December. "I corresponded with him after the election, offering some help." They discovered a remarkable coincidence of views and he was asked to join the Government.

He is one of seven ministers who form a sort of inner cabinet around the President and whose ministries have enhanced authority. "I do not have a plan of action but rather a philosophy of action... I am not an administrator. I see my job as creating policies and monitoring them."

In Brasilia Mr Lutzenberger has already upset some of the bureaucrats, who regard him as both arrogant and dictatorial in his dealings. He has also managed to get through two directors of Ibama.

Nevertheless, admirers revere "Lutz" as a visionary, preaching the need for a new international awareness of the delicate balance between man and nature. Even detractors, who regard him as impracticably 'green' and dangerously anti-development, concede he is a man with a message that has to be taken seriously.

He comes from the German immigrant community which settled in southern Brazil. As a graduate he specialised in agronomy and soil science, eventually joining in 1957 the German chemicals group, BASF, for which he travelled the world as a fertiliser consultant.

However, he became increasingly uneasy about the role of fertilisers, realising he was working for an industry that profited by curing the symptoms of diseases which it itself was causing. In 1972, he quit BASF and moved back to Brazil with his wife and two young daughters.

With the passion of a convert, he has ever since been campaigning for "environmental sanity and social justice". This has led to many a confrontation with government, institutions such as the World Bank, and big business.

His guiding ethos, which he first saw through the need for regenerating the soil, has been what he calls "a moral critique of science and technology".

At times he is near mystical, and he has been much influenced by the thinking of James Lovelock, the British scientist who developed the Gaia theory. In essence this envisages mother earth (the Greek Gaia) as a vast, living being that survives through an intricate process of inter-dependence and self-regulation – now threatened by man.

"It is not a question of life surviving because by accident conditions remained right over that incredibly long period of time (the past three and a half billions years)," he said in a recent lecture.

"Just as my organism is homeostatic, regulating my internal temperature to close to 37.5 degrees regardless of snow or sunshine... so it is with planet earth. It is a living planet, a living being. You may object that a mountain is not alive, it is dead rock.

"Well, look at a scallop. It is dead calcium carbonate. But take the shell from the scallop and it dies. It is the unit of the shell and that meaty organism that makes the scallop... The mountain is just as much part of life as my heart is of my organism."

Mr Lutzenberger is convinced, almost to the point of obsession, that most modern technical and scientific thinking ignores the "whole organism". As a result he believes we violate the organising structure without realising it. Of the rainforests which act as a "colossal heat pump", he says: "They take nature millions of years to build, and we are destroying them for triviality. We should have an almost religious approach to these great forests."

Despite thinking on such a mystical plane, his energies have been directed in very practical ways to improve the environment. He established the Fundacao Gaia in Brazil as a 'missionary' *institution to divulge his ideas.* This now has an international offshoot in London and also runs a small experimental farm outside his native Porto Alegre.

In Brazil he has focused on soft technology, waste recycling, regenerative agriculture and protecting the rainforests and its indigenous peoples. One of his first campaigns was to halt the pollution of a cellulose plant in Porto Alegre *which he has subsequently* redesigned to be environmentally friendly.

It is a background that has hardened him to dealing with authority but which could well complicate his task in government. At present he relishes the challenge.

'It is a living planet, a living being'

PERSONAL FILE

1926 Born Porto Alegre.
1947 Attends University of Porto Alegre, agricultural engineering and agronomy.
1951-53 Louisiana State University, US, soil science.
1954 First job, CRA Fertiliser Company, Rio Grande do Sul.
1957-72 BASF fertiliser consultant.
1972 Begins environmentalist activities.
1987 Establishes Fundacao Gaia.
1988 Right Livelihood Award, regarded as the 'alternative Nobel Prize'.
1990 March, joins Collor Administration.

Calcutt's curbs on press misconceived

JUSTINIAN

CRIMINAL justice is at the best of times a blunt instrument to effect social control. When it is applied to the individual offender for having done something that is a traditional crime – murder, robbery, theft or indecent assault – it has a social utility of assuaging the victim's feelings and allaying public unease, as well as punishing the culprit.

Any defence which the offender may have to the particular charge will invariably be of a personal nature. Murder, robbery or rape can rarely, if ever, be justified morally, let alone legally, on the grounds of some public interest.

Even the assassination of a Hitler or the theft of documents proving a criminal conspiracy by government cannot excuse the criminal event.

When, however, the commission of the impugned act is thought to be justified by the perpetrator on some impersonal basis – for the purpose of exposing some corrupt conduct by holders of public office – the use of the criminal law is inapt, even futile.

So when the Calcutt Committee on Privacy recommends that three forms of physical intrusion onto private property should be made criminal offences, subject to a general defence that the intrusion was for a definable social benefit, there is an instinctive rejection to the conceptual basis for rendering such conduct criminal.

If, moreover, intrusion onto private property, without the occupier's consent, is to be discouraged, then the civil law of trespass is the appropriate remedy.

The Calcutt formula is thus to render the trespass criminal, simply on the basis that the trespasser had an intention to intrude for the purpose of garnering information with a view to publication.

Journalists and other media people are thus singled out as potential criminals whenever they are sent out on a mission of news gathering that may involve an invasion of privacy.

While intrusive behaviour by the press is to be deplored and needs to be curbed by firm action on the part of responsible editors, it is not sensible to dub the behaviour as criminal. Take the following scenario, adapted from Watergate.

Two journalists uncovering government corruption invade the private home of a conspirator, hoping to find an incriminating typewriter and vital documents.

They are caught in the act. Police arrive and arrest them. They are charged with this brand new crime and kept in custody, but may be released on bail because they appear to have a defence that they were in the process of exposing "serious anti-social conduct" – to use the vapid phrase of the Calcutt report.

While intrusive behaviour by the press is to be deplored and needs to be curbed by firm action on the part of responsible editors, it is not sensible to label the behaviour as criminal

When the case comes to trial months later – pending which time the hunt for vital information about government corruption has to be called off – the defence is met with the counter argument that the journalists' activity involved a breach of national security, which might negate any public interest defence.

The consequences of such a confrontation between government authorities and the press would be dire. It is inconceivable that in a free society the weapon of criminality could be unleashed against the press.

The Calcutt proposals are designed, understandably, to counter abuses by a segment of the national press (and their news agencies) which constitute unwarrantable invasions of privacy.

There are two distinct aspects to invasions of privacy. There is the harassment or physical intrusion by journalists. This is the conduct which the Calcutt Committee specifically addressed in suggesting the criminality of such behaviour.

If such conduct is intolerable to the individual whose privacy has been invaded, it is much less offensive than the ultimate product of widespread dissemination of the individual's private affairs. Where the information has been acquired by non-intrusive methods, as is often the case, the publication of the individual's private affairs is infinitely more hurtful than any physically intrusive activity that does not lead to publication.

Once publication has taken place, the damage has been done, irreparably and irremediably. In contrast, the physical intrusion onto private property is remediable by civil action through injunction and damages.

And the opportunity for preventing publication remains ultimately in the hands of editors who are able not only to control investigative journalism but also to stifle the forbidden fruits of such investigation.

Calcutt wisely perceived that legal control over publication of a person's private affairs would involve unacceptable prior restraint and censorship. By focusing on the most extreme forms of investigative journalism and labelling physical intrusion onto private property as criminal, the Calcutt Committee has, however, misconceived the proper role and function of the law, as it affects freedom of expression.

Louis Blom-Cooper QC

The author is chairman of the Press Council

FINANCIAL TIMES SURVEY

1992: REDRAWING THE MAP OF EUROPE

SECTION III

Monday, July 2, 1990

The collapse of Communist systems has ended Europe's rigid post-war division along ideological lines. But the removal of that dividing wall has created a set of formidable new challenges. **Edward Mortimer** considers the problems that lie ahead

Curtain up on new scenario

ANYONE WHO thought one could wait until 1992 to redraw the map of Europe has by now had to think again. Last autumn "life itself," to use Mr Mikhail Gorbachev's phrase, seized the pencil from the astonished hands of statesmen and diplomats and set about the redrawing process in a swift and decisive manner. What had been the sharpest and clearest dividing line in Europe – the Iron Curtain – suddenly disappeared.

Germany as of today is a single economy with a single currency, and by the end of the year or soon after will be a single state. "Eastern Europe" no longer exists as a separate socio-economic or geopolitical region. There is only "Europe." But what is Europe?

Europe in political terms has come to be identified with the European Community. Yet the EC, until now, has been essentially a West European phenomenon. That may be less of a paradox than it seems. William Wallace, in a book* published earlier this year, points out that the centre of gravity of European civilisation – demographically, economically and culturally – has been, for at least 1,000 years, in Western Europe.

It is historically normal that the countries of central and Eastern Europe, including Russia, should look to the West for inspiration and leadership, and should aspire to be integrated into an essentially West European community. What was abnormal was the way that in the last 40 years they were cut off from it.

For the EC itself, and for the people who already belong to it, this sudden reopening of the East is gratifying. Should they not be flattered at the discovery of so many admirers and would-be imitators? Yet the change also poses problems to Western Europe, which at their deepest level are problems of identity or self-definition.

Until now, the question of Europe's geographical extent was largely academic. The only borderline case that mattered (admittedly a very awkward one) was Turkey. Otherwise, Europe was defined on three sides by the sea and on the fourth, *de facto*, by the Iron Curtain. Now the curtain has suddenly lifted, revealing to the East a dizzying vision of open space: the eye does not know where to stop.

Groping in their past for reference points, some Europeans have discovered a "German problem." The Germans themselves find this perverse. They see today's German problem as being essentially theirs to worry about. Somehow they have to overcome an economic and cultural rift in their society, caused by 40 years of enforced separation under different political and social systems. By comparison, Britain's much-touted North-South divide looks almost imperceptible. Only Italy among Western countries has a comparable problem, with its underdeveloped, resentful and parasitical *Mezzogiorno*.

But luckily the West German economy, which has to shoulder this burden, shows every sign of being equal to the task. Nothing in present (as opposed to past) realities suggests that the united Germany will be a threat to its neighbours. On the contrary, there seems every reason to expect that it will be a stable and prosperous democracy, well-equipped to provide political as well as economic leadership to the rest of Europe. The big questions lie further east: how much of Eastern Europe can be integrated into "Europe" proper; by what methods; and how will the process affect the existing political and economic structures of Western Europe?

To reduce these questions to a "wider versus deeper" debate about the EC is to oversimplify them and to underestimate their importance. In fact, even the idea that there would be such a debate now looks like a momentary British fantasy, already past. Continental members of the EC concluded very quickly, with almost unanimous instinct, that the events in the East strengthened the case for the closer integration of Western Europe and made it more urgent.

Partly, of course, this instinct sprang from the desire to head off any resurgence of German nationalism – or, among the Germans themselves, to allay any apprehensions on that score. But there is more to it than that. Even before the precipitate decline of Soviet power there were signs of a much slower but still significant decline in American power, or at least in the resources Americans were willing to allocate to the defence of Western Europe. The collapse of the Warsaw Pact and the removal or sharp diminution of the Soviet threat were bound to accelerate this process.

In the previous situation the East exerted military pressure on the West, thereby highlighting the political importance of Nato, a body in which political relationships are determined by military ones, and in which the US plays the leading role. In the new one the demands made by the East on the West are primarily economic, related to trade and finance: this puts the spotlight on the EC, and incites the US to take a back seat. The US has economic problems enough already, at home and overseas, and in an economic context is accustomed to regard Europe as a competitor rather than an ally.

Thus the leading role in the new Europe falls inevitably to the West Europeans. They can play that role only in the guise of the EC, but in order to play it properly they need to make the EC more cohesive, speed up its decision-making processes, and strengthen its administrative and diplomatic machinery. Not only must the single market be completed on schedule in 1992. It is now to be complemented by economic, monetary and "political" union. Meanwhile an inner core of countries – France, Germany and Benelux – has agreed to press ahead with the full abolition of frontiers between them, blazing a trail which it is hoped the rest of the Community will follow.

All this deepening does not rule out widening, although a moratorium on membership applications has been declared until it is complete. This may be intended by some as a wheeze to block widening, by ensuring that the *acquis communautaire* is too onerous for any would-be new member to accept. But a more widely held interpretation is that it will enable the EC to admit new applicants *at a later date* without jeopardising its cohesion.

Meanwhile, Efta members are being offered the "European economic space" (which really means the right to enforce the rules of the single market without having a say in the definition of those rules), and no doubt tailor-made association agreements will soon be devised for the emerging market economies.

But several crucial questions remain unanswered, among them the following: How far east will the integrative process extend? Can it include Russia, and if not, how will the new Europe cope with an excluded and embittered Russia on its eastern border? How much money will Western Europe put where its mouth is, to support the transformation of the former socialist countries, and how quickly will it give them access to its market, especially for farm produce?

What will the new Europe retain in the way of defence forces and alliances or "security structures"? Will European political union extend to defence as well as foreign policy? Will the new ties to the east be at the expense of a less generous and more restrictive policy towards the even poorer countries to the south? Can the EC avoid being overwhelmed by a flood of immigrants from east and south alike, without flagrantly contradicting its proclaimed attachment to human rights?

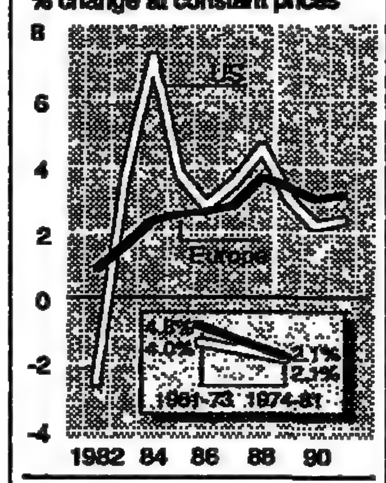
Will the new Europe be part of a free world trading system, bound by common rules, or will it be one of three vast trading blocs, each seeking vainly to enrich itself at the others' expense?

**The Transformation of Western Europe*, Royal Institute of International Affairs, £6.95.

IN THIS SURVEY

GDP

% change at constant prices



Editorial production
Gabriel Bowman

Prospects for East-West relations

Tests that lie ahead

THE Iron Curtain has opened to reveal a single European homeland stretching from the Atlantic to the Urals. The Warsaw Pact has collapsed, at least as a military force. The communist system itself has all but ceased to exist as a challenge to the capitalist world's ideological security and sense of psychological well-being. The nightmare of East-West confrontation seems over. But just as the greatest tests are yet to come for the emerging democracies of Eastern Europe, the testing time for East-West relations still lies ahead.

During the quiet revolutions of 1989 and the generally democratic elections of 1990, the West simply looked on in admiration. Indeed, it was obliged to keep a distance. Western Europeans could wish their Eastern neighbours well. They could perhaps pray for a happy outcome. But in all sincerity, the West could not interfere, help or even offer guidance as Eastern Europe took its first *daring steps to freedom. This* was a road that each country had to find on its own.

However, now that the Eastern countries have set off on the democratic, free-market road, the relations between the two halves of Europe will have to change, and to change much more rapidly than many Western politicians and people yet realise. For it will be literally impossible for the Eastern European countries to mature into stable and prosperous market economies without interacting profoundly with the economies of Western Europe – and this interaction may prove politically difficult and socially disruptive for East and West alike.

Obviously there is a desperate need for investment, financial support and technical assistance. But there are other reasons why the West will not be able to maintain the stance of benign detachment which it adopted during the first phase of the Eastern European revolution. Even more important than direct financial support will be the degree of market access, of labour mobility and of economic integration which Western Europe will be prepared to allow.

Unless they can be tied very closely into the Common Market's division of labour, the market experiments of Eastern Europe may be doomed to failure, or at least to long frustration. Yet if the Eastern nations are admitted as full participants in some kind of "European economic space," some citizens of the West may have to accept more social and political sacrifices than they yet realise.

The comparative advantages of the revitalised Eastern European economies will lie in many of the West's most sensitive and politically protected industrial sectors. Textiles, footwear, steel, coal and agriculture will be the East's natural export products. In the not-too-distant future, car and electronics assembly could be added to this list if all goes well. Will the new spirit of fraternity inspire Western Europe to throw open its markets in all these products to its impoverished Eastern neighbours?

If it does, then the development of Eastern Europe will be all but assured, with or without direct financial support from the governments of Western Europe. But so would the vehement opposition of some of the West's most powerful producer interests. If, on the other hand, Western Europe denies its neighbours free market access in sensitive labour-intensive industries, then the Eastern European countries can expect a long and arduous road with no assurance about the ultimate destination. Like most of Latin America and much of Asia, Eastern Europe may remain stuck for generations with over-diversified, autarkic economic structures, whether or not they receive Western financial support.

Unfortunately, the early negotiations in Brussels on tariff reductions and possible associate membership by Hungary, Yugoslavia and Poland, suggest that Western Europe will take the protectionist line. Already, even before the economic reform movement has started to take hold in the former communist countries, Western manufacturers' associations are preparing dossiers on "dumping" by Eastern Europe. As for the farmers, they have been relatively quiescent because Brussels has made it clear from the outset that *the Common Agricultural* Policy will remain closed to non-members of the Community and agricultural protection will remain sacrosanct.

With little chance of winning these conventional trade battles, the Eastern European countries can hope for even less openness when it comes to their most abundant and valuable resource – highly-skilled low paid workers. If anything, the West is likely to become more assertive than ever in its determination to stop the East from "dumping" its surplus labour – and the demand for Eastern "guest workers", whose remittances have helped to sustain the economies of Yugoslavia and Poland in particular, is almost certain to decline sharply following the unification of Germany.

As a result, the ideal of free migration across the whole European continent looks like remaining an unrealisable dream for the foreseeable future. This absence of free labour movement will naturally make Eastern Europe's exclusion from the Community even more galling, as well making its economic adjustment harder to bear.

These very un-neighbourly attitudes on trade and immigration suggest an alternative perspective on Western Europe's generosity in its financial support. France and Germany have shown impressive leadership in setting up the European Bank for Reconstruction and Development, as well as steering bilateral aid measures through the EC and other international bureaucracies, usually in the face of British and US opposition. More recently, France has gone further, arguing, with Germany's backing, for a major financial support programme for the Soviet Union.

But it would be unwise for either East or West to be distracted by these proposals for financial collaboration from the equally important questions of industrial integration and free trade. The point is not, as the US and British *sometimes seem to suggest* that financial assistance is irrelevant or even counter-productive. Project lending, balance of payments support, debt forgiveness, and Western backing for monetary reforms will certainly determine the scale of suffering as Eastern Europe begins to struggle out of its economic predicament in the next few years.

But in the longer run, the critical issue will be whether the West accepts up to 300m Eastern Europeans and Russians as fully-fledged members of the "common European home". This is the unanswered question which could ultimately determine not only Eastern Europe's hopes of prosperity, but also the security of the entire world.

Anatole Kaletsky

Anatole Kaletsky on the economic outlook for the Continent

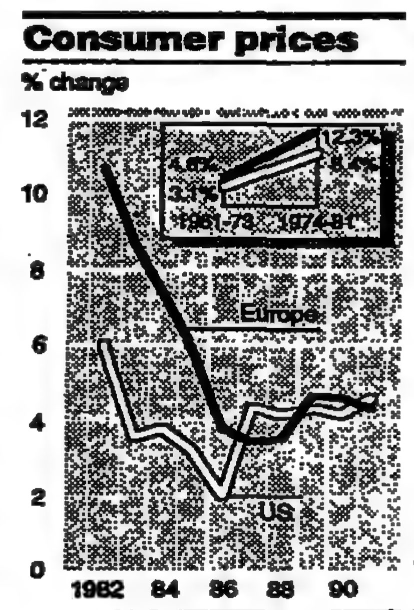
Confidence seems justified

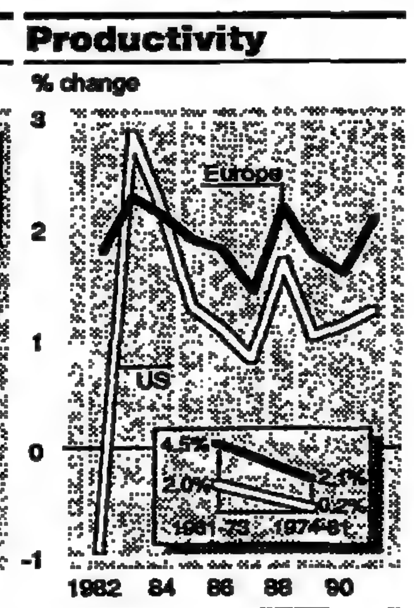
THE EUROPEAN economy is "now functioning distinctly better than during most of the previous two decades." This was the official judgement of the European Commission's annual economic report, published about six months ago. All the events since then have seemed to justify and reinforce this confident boast.

In 1988 and 1989 the European economy has comfortably achieved the 3½ per cent GNP growth which has been judged by the Commission and most member governments to be its optimum sustainable growth rate. Europe has also enjoyed record job creation for two years running and inflation in most countries has remained tolerably under control. And if the econometric models are right, the same favourable trends are going to continue this year and next, with only a marginal deceleration in the growth rate.

Looking further ahead, there do not seem too many clouds *on the horizon, at least if the* Europe is considered as an integrated unit. Even the much-discussed unification of Germany and liberation of Eastern Europe, with the consequent diversion of funds from capital-importing countries such as Spain, Portugal and Britain, may end up having only a modest impact in the context of the vast continental economy as a whole.

Germany monetary union, for example, may increase demand for West German exports by roughly 1¾ per cent of GDP, according to the Commission's forecasts, *but it will* add only about ¼ per cent to the growth rate of the EC as a whole. Similarly, some of the serious economic problems still suffered by individual countries fade into relative insignificance in the broader European context, just like the many imbalances and inequalities which have always existed between different regions in the US.





Britain and Greece still have their huge current account deficits and deep-seated inflations; Spain and Ireland have their towering unemployment rates of 16 per cent plus; Italy and Greece have their government deficits, which exceed 10 and 15 per cent of GNP respectively. But viewing the European economy as a single unit, many of these imbalances seem less worrying, or simply cancel out.

Inflation and unemployment, for example, remain less than satisfactory, even at the Europe-wide levels of 4.7 per cent and 8.5 per cent respectively. But neither of these figures are as alarming as the extremes seen in Spain, Italy and Greece. The same is true of government budget deficits, which seem to be stabilising at around 3 per cent of Europe's combined gross domestic product.

Meanwhile, the current account for Europe as a whole is likely to remain almost exactly in balance, despite the very large surpluses in Germany and the equally wide deficits in Britain, Spain and Greece.

Thus, on the conventional assumption of unchanged exchange rates, the EC Commission forecasts very little improvement in the UK's current account deficit of 3 per cent of GDP and expects a widening of Spain's from 3.6 per cent *this year to 3.9 per cent* in 1991.

At the same time, the German surplus is set to widen further from 4.3 per cent to a gargantuan 5.1 per cent of GDP. Yet Europe's current account position with the rest of the world is forecast to remain comfortably balanced, with a surplus of 0.2 per cent of GDP this year and 0.3 per cent in 1991.

Observations like these are not mere statistical curiosities. They point to an important change in the perception of economic reality which is beginning to influence that reality itself.

Because of the way that large internal imbalances can be accommodated, financed and gradually adjusted within a continental economy, the growing acceptance that Europe is on its way to becoming a single economic unit has greatly contributed to the self-confidence of policymakers and businessmen throughout the EC.

This confidence, in turn, has helped to improve Europe's economic performance. It has certainly helped governments avoid disruptive changes of policy and adjustment crises. And it has probably contributed to the surge in private investment which has been the fastest growing component of European demand for four years running and is set to maintain this position in 1991.

The present economic performance seems therefore to justify the claims made for years by advocates of European integration, including monetary and ultimately political union. The financial stability created by the European Monetary System has allowed the financial markets and business decision-makers to treat Europe as a single economy, much as they do the US. This has improved business confidence and transformed the prospect of full monetary union from a rhetorical fantasy into an inescapable financial reality.

The growing plausibility of monetary union, in turn, has made it possible for governments to maintain fixed exchange rates despite the wide current account imbalances and disparities in inflation that might have triggered adjustment crises in the past.

Of course, these very successes have had some harmful and ironic implications. The markets' increasing faith in the stability of the EMS has actually diminished the system's effectiveness as an anti-inflationary discipline. As Mrs Thatcher has found, governments can now strengthen their exchange rates simply by committing themselves to EMS membership, without taking the painful measures that used to be required to cut current account deficits or inflation.

As a result, the economic convergence encouraged by the EMS and monetary union may not be of the kind intended. Instead of all countries converging towards the performance of the least inflationary EMS members, it seems increasingly likely that the inflation rate in Germany will converge upwards towards the low end of the ranges which have traditionally been acceptable in Italy, Spain, the UK and France.

This may frustrate and infuriate the inflation fighters in the Bundesbank. But for the Bonn Government, acceptance of an inflation rate set by the other EMS members seems an acceptable price to pay for unity not only with East Germany, but ultimately with the whole of Europe.

GERMAN REUNIFICATION

Lessons of history

NO-ONE can complain about any lack of warning. The preamble to the 1949 constitution *of the Federal Republic* proclaims the objective of German reunification as the country's highest goal. The three Western allies in the *Deutschlandvertrag* of 1955 declared, with equal solemnity, their aim of restoring a united Germany "with a liberal-democratic constitution, integrated into the European community."

At the level of ordinary people rather than statesmen, no fewer than 3.65m refugees from Communism have fled from East Germany in the 40 years since 1949 in pursuit of Western-style freedom and living standards. *There was no short*age of evidence that the "German Question" was not, after all, solved in the aftermath of the Second World War. But the rapid build-up since last autumn to the remerger of the torn German nation took almost everyone by surprise – including, above all, the Germans themselves.

In the helter-skelter of events since the breaching of the Wall in November last year, this surprise has manifested itself in a number of ways, both in Germany and abroad. At the fulcrum of the European power balance, Germany has been both subject and object of the political changes rippling out across Europe.

The Germans' very lack of preparedness for unity may, paradoxically enough, make it more palatable for their neighbours. Whatever the success of 40 years of stability, prosperity and democracy, West Germany is mindful of the country's own terrifying past mixture of strength and fragility. It has also not been allowed to forget the anxieties of its neighbours over the possible consequences for the rest of the Continent of renewed German restlessness.

Thus the unexpected twist in Germany's national destiny has not sent the Germans off on a path on their own. Rather, concern both at home and abroad about the implications of an "untethered giant" in the middle of Europe has if anything added to the process of integration already under way across the Continent.

This trend has been illustrated both by the "2 plus 4" talks between the two German states and the four victors of the Second World War, and by the accelerated timetable of moves towards political and monetary union in the EC. Some of the aims of these sets of negotiations may yet fail.

The objective of reuniting Germany as a member of Nato, keeping the Alliance sufficiently intact to please the *Americans, British and French*, but loosening it enough to reassure the Soviet Union, may prove to be an impossible juggling act.

Similarly, Chancellor Helmut Kohl has promised President François Mitterrand to aim for EC political and monetary union by 1993. The pledge, part of Bonn's efforts to convince France that a united Germany will be "bound in" to the rest of Europe, may prove to be untenable. But in both cases, it is significant that German unity is going ahead in a framework of mutual consulta*tion with neighbours and part*ners.

Germany must "bring the hay into the barn before the storm"

The much-feared German *Sonderweg* (special path) so often talked about in the last 100 years has this time failed singularly to make an appearance. Opinion polls indicate that the West Germans, who towards the end of the 1980s cooled markedly in their previous enthusiasm for EC integration, became somewhat keener about European union in 1989. This has something to do with the booming export-led economy, where growth of 4 per cent in 1989 and (probably) this year has been much due to buoyant investment demand abroad geared to the 1992 programme.

The swing in public opinion also seems to reflect the Germans' own worries about breaking into uncharted waters without the comparative safety of the EC convoy.

If West Germany had remained in the growth doldrums of the mid-1980s, the country's magnetic attraction for the East would have been less forceful. Economic pressures have plainly held the key to the bringing together of the two parts of the nation. Chancellor Kohl for years preached the aim of recreating "the Fatherland" in speech after earnest speech. Having admitted as recently as October 1988 that he did not think he would live to see unity, Mr Kohl not surprisingly did not give much thought to making the idea an operational aim.

Even after holes appeared in the Wall in November, Mr Kohl, in line with the broad political majority, thought that unity would not actually take place until the mid-1990s. The robust West German economy, the yearning of the East Ger*mans for Western life-styles*, and the vacuum left after the ending of the regime of Mr Erich Honecker, the paternalistic despot in charge since 1971, however conspired to speed up the pace of change.

The plan for all-German elections in December 1990 also reflects fears in both East and West Germany about possible disruption in the Soviet Union if President Mikhail Gorbachev topples. In Mr Kohl's folksy, but ominous, phrase, Germany has to "bring the hay into the barn before the storm."

The *Angst* in Germany over *unification underlines one cru*cial point: there has been no outpouring of national euphoria at the opportunity to reforge the nation. Rather, West Germans who had grown comfortable (and certainly, in relation to the rest of the world, rich with division) have reacted grudgingly to the sacrifices which are almost certainly coming their way. In East Germany, black-red-and gold German flags were much in evidence last year, but have slipped back lately under the weight of concern about jobs and livelihoods after monetary union on July 1.

During the 1990s, Germany will be the most important political, economic and cultural power in the middle of Europe. But its position relative to the rest of a continent in transition may be far less dominant than some of its neighbours believe (or fear). The German trade surplus, for instance, will fall as resources are directed to the East – good news for the world economy.

Other European countries, above all the co-signatories of the *Deutschlandvertrag*, Britain or France, make no secret of their dislike of their distaste for extra competition from a Germany due to grow by 25 per cent in population on Unity Day.

Germany is, however, much more of a problem for those around it when it is economically weak than when it is economically strong; and Germany is much more likely to be economically strong when it is fully linked to the rest of Europe. These lessons of history suggest that Germany's neighbours will now keep up their push for more European integration. Provided the world economy keeps on an even course during the 1990s, the momentum could be overpowering.

David Marsh

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1992: REDRAWING THE MAP OF EUROPE 3

Martin Wolf on the evolution of the European Monetary System

One continent - one currency

THE exchange rate mechanism of the European Monetary System has been an outstanding success. Its first success is, quite simply, that it has survived, very much against the initial expectations of many observers. Its second success, evident from the chart below, is that it has provided a substantial degree of exchange rate stability, a stability certainly not shown by sterling.

Its third success is the steady convergence of inflation among the member countries and the declining frequency of realignments. There has now been no general realignment since the beginning of 1987. The final, perhaps greatest, success has been the birth of ambitious schemes to turn the EMS into economic and monetary union.

The EMS has evolved since its inception in 1979. Initially, it was just a way of managing exchange rates, all of which tended to depreciate against the mighty D-Mark. Thus between 1979 and 1983 there were eight realignments.

1983 inaugurated a second stage, one of a strongly disinflationary ERM, with few realignments. It was then that France decided against expansionary socialism in one country and for the European Community, economic liberalisation and "competitive disinflation." This shift made possible the subsequent success of the EMS, not to mention the single market programme and the Single European Act.

Since March 1983 the central rate of the French franc has been changed only twice. This experience is paralleled by that of the Belgian franc and the Danish kroner. The guilder has remained unchanged, while the values of the Italian lira and the Irish punt have been changed more often than those of the others. The Spanish peseta joined, on a wide band,

Annual inflation (%)

	1980	1988
Italy	21.2	5
Ireland	18.2	2.1
France	13.6	2.7
Denmark	12.3	4.6
Belgium	6.6	1.2
Netherlands	6.5	0.7
West Germany	5.5	1.2

in June 1989. Altogether, since 1983 there have been five realignments, of which only two – on April 7 1986 and then on January 12 1987 – involved more than one currency.

The ever-increasing stability of the ERM reflects the convergence of inflation among its members, as shown in the table. But, while inflation converged, current account positions did not. In 1988 West Germany had a trade surplus of $46.3bn with the rest of the European Community. The persistence and scale of the West German trade surplus raised potentially self-fulfilling doubts about the likely stability of ERM exchange rates in the longer term.

These "imbalances" were just one reason for wishing to strengthen the ERM by moving speedily towards Emu. Also important was the programme to complete the single market. The benefits of the single market, it was argued, must be limited by the continued existence of 12 separate currencies.

One aspect of the programme, the elimination of exchange controls, was of decisive importance. The elimination of exchange controls, which has now become effective in France and Italy, represents a third stage in the history of the EMS. In the absence of exchange controls, realignments – other than small ones within the ERM bands – must be increasingly inconceivable and monetary policy ever more co-ordinated.

There are also political arguments for Emu. It is welcomed by many for precisely the reasons that Mrs Margaret Thatcher rejects it. Emu would transform the EC politically by shifting power from member states to the EC level in a central area of economic policy. Such a strengthening of the EC is thought by many, above all in France and West Germany, to have been made still more important by developments in Eastern Europe and the imminent unification of Germany.

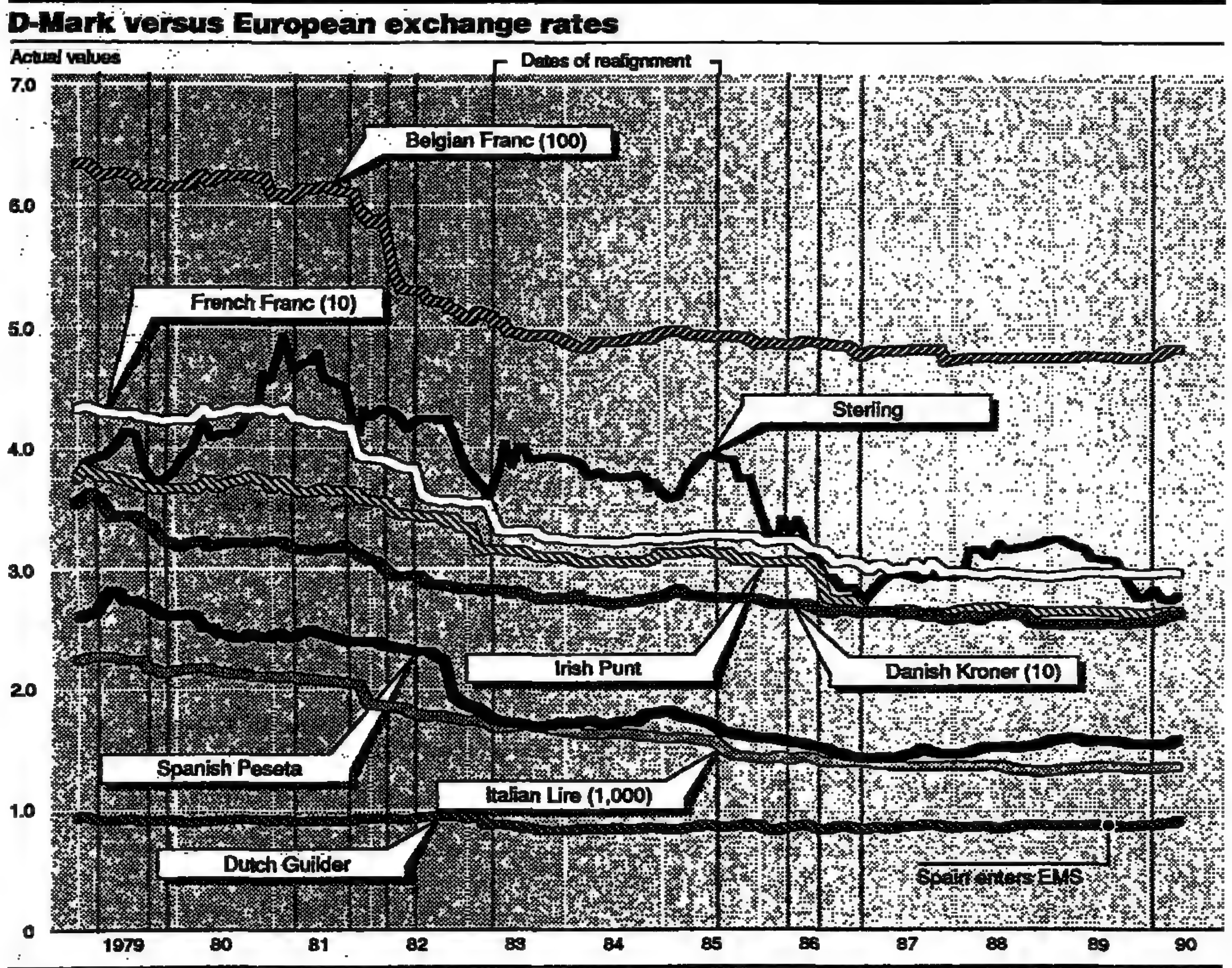
Recent moves towards Emu were given their impetus by the commissioning of what became the Delors Report at a meeting of the European Council in Hanover during June 1988. Its publication triggered the decision, taken at the Madrid summit in June 1989, to move to economic and monetary union, though the Delors schema itself was not then agreed. The UK Government, in particular, has been trying ever since, so far without success, to find alternative, evolutionary paths towards what the remaining members of the EC could still accept as Emu.

The Delors Report proposed three stages to Emu: the first would entail the completion of the internal market, including the abolition of exchange controls, and universal membership of the ERM. Stage 1, it was agreed in Madrid, would begin on July 1 1990. The second stage, which could follow only when a new treaty had come into force, would involve setting up new institutions, principally a European System of Central Banks, now known as EuroFed. The final stage would involve the irrevocable locking of exchange rates, the transition to a single currency and a single monetary policy.

By increasingly general agreement certain proposals, notably those for binding limits on budget deficits, look unlikely to be accepted. But when the inter-governmental conference on the new treaty convenes in December of this year, the likelihood is that a EuroFed will, indeed, emerge as a European version of the Bundesbank.

How quickly the new monetary regime comes into effect and, equally, how much of the present EC it will embrace is as yet unclear. But the EC is well on the way towards a single currency. On past form, even the UK will be dragged, kicking and screaming, into the new arrangements.

D-Mark versus European exchange rates



David Buchan on the Community and the world outside

Tokyo 'bridge' to Brussels

EUROPE, Henry Kissinger used to jibe, has no telephone number. *So the former US Secretary of State* abandoned his best intentions of trying to work closely with a bunch of states with which there was no single point of contact.

But Europe – to be more precise, institutional Western Europe – is acquiring a centre in Brussels, home of the EC.

The chain of reasoning runs something like this: As the Cold War evaporates, the basis of power in the world returns clearly to economics, on which *the Community has built itself* up. The single market programme, threatening to create the world's largest pool of free-flowing goods, services and capital, is acting as a magnet to outsiders, from immediate neighbours among the Efta and Eastern Europe countries to bigger and more distant partners such as the US and Japan. And creating real free trade, paradoxically, requires and reinforces the Community's supranational machinery.

To these almost organic internal factors for the growing profile of the EC must be added the outside catalyst of Eastern Europe. Orchestrating a Western aid effort for the collapsed economies of Eastern Europe could be considered just the sort of challenge that the EC was created 30 odd years ago to meet. Certainly, Washington seemed to think so, when it took the lead at the 1989 Western economic summit in making the Commission overall aid co-ordinator for the East. Japan and some 10 other non-EC industrialised countries have joined Community members in what is now called the Group of 24, and have agreed to funnel their largesse to the East through Brussels.

Particularly marked has been the tendency of the Bush Administration to give more open support to European integration in general and to the EC in particular than any US government since the early 1960s. This tendency is strongest in the State Department, which seems to want to hedge its bets, so as not to rely wholly on Nato, given French and maybe soon German ambivalence about the Alliance. But the pro-EC sentiment is spreading. Mr William Taft, the current US ambassador to Nato and, significantly, a former deputy defence secretary, recently endorsed the idea of the EC getting into security.

It seems to want to hedge its bets, not to rely wholly on Nato

For the moment the only concrete result of this appears to be the opening of the way for the European Commission to get full diplomatic recognition in the Conference on Security and Co-operation in Europe (CSCE). Commission ambitions to extend EC competence to defence policy or defence procurement seem quiescent for the time being.

Equally modest seems to be the immediate result of the December 1989 call by Mr James Baker, the US Secretary of State, for new institutional links between the US and the EC. Twice a year, Mr Baker will meet his 12 EC counterparts, and twice a year the US president will meet, separately, the presidents of the European Commission and the Council.

The main advantage of such meetings became clear at the first US-EC foreign ministers' meeting in early May – this transatlantic dialogue could, and did, range the world over, and not be restricted, as in Nato, to the area covered by the Atlantic Alliance or the Warsaw Pact. Thus, Mr Baker proposed that the US and EC mount a repeat of their joint aid effort for Eastern Europe for the Caribbean and Central America, with the Americans *in the co-ordinator's chair.*

Tokyo has greater reservations than Washington about dealing more with the Commission in Brussels, for one simple reason. The one traditional flashpoint in Japanese-European relations is trade, and the Commission is the Twelve's trade negotiator. Added to this is the fact that Mr Jacques Delors is French, and the French remain the most protectionist of Europeans against Japanese imports. But EC-Japanese relations may have entered a new and more harmonious chapter in May when the two sides held their first ministerial discussions for more than three years. Successive political changes in Japan's ruling Liberal Democrat Party were the reason for the delay in making contact.

When the meeting took place, it was a pleasant surprise to both sides. Brussels got the Japanese to set up a working group on bilateral trade issues. With the Gatt negotiations coming to a head, Tokyo was adopting a holier-than-thou attitude about only settling trade issues in that multilateral forum, but having gone through the bilateral "structural impediments *initiative" with the US it could* not deny Brussels a one-to-one dialogue on trade.

For its part, Japan got the EC to lift its sights above its commercial obsessions and give "further political impetus" to EC-Japanese relations. Mr Taro Nakayama, the Foreign Minister, talked of "building a political partnership on a global basis" with the EC. To show these were not empty words, Mr Nakayama pointed to his country's aid to Eastern *Europe in the context of the* G-24 programme. Brussels has been pleased with Japan's involvement in this, not least because, as G-24 co-ordinator, it can keep an eye on what Japan is getting up to commercially in Eastern Europe.

There remains considerable mistrust in EC-Japanese relations. But as these are trade-based, the tensions are easing as the growth in Japan's trade surplus with the EC has slowed since 1988. A severe test of whether there is a new maturity in Europe's attitude to Japan will, however, come on the issue of future treatment of Japanese car sales in a Europe that must adapt to doing without national import barriers on this most politically sensitive of products.

After long internal wrangling, EC states seemed by late June to have reached a common position to put to Tokyo. This is that, from 1993 on, there should be a five-year transition period before all restraints on Japanese car imports come off. By 1997, it is hoped, there will be more to Europe's relations with Japan than just trade.

1992: REDRAWING THE MAP OF EUROPE 4

David Buchan looks at institutional political and economic links

Accelerator pedal pressed on the path to union

SUPRANATIONALITY is a long and, to many, a dirty word. But it may prove to be the right label for political behaviour in the last decade of the 20th century. The states of Europe are finding it increasingly in their self-interest to forge closer political and economic links with each other, with the disappearance of the military divisions that have for so long tri-sected the continent into Nato, the Warsaw Pact and Europe's neutrals.

Frequently, this activity goes further even than inter-governmental co-operation because it accentuates the tendency for states to interfere in each other's affairs, whether controlling state aids (in the interest of creating distortion-free free trade) or lecturing each other on human rights (as in the Conference on Security and Co-operation in Europe).

The trend toward integration is most obvious in the European Community, but it does not stop there. All manner of states or groups of state are reaching out to each other – members of the European Free Trade Association (Efta) are now negotiating far-reaching links with the EC, East European countries are forging economic agreements with both the EC and Efta and readying themselves to take the pledges of democracy required for Council of Europe membership, and arching over all these organisations is the new stress laid on the CSCE by the 35 states who participate in it.

There are reasons for the current surge towards closer EC integration which have nothing to do with the dissolution of communist power in the East. They are the desire to build on the astonishing success of the Community's barrier-flattening single market by giving it a single money, and the growing feeling that the shift of decision-making to EC institutions requires greater *democratic control by the* European Parliament as well as by national legislatures.

In addition, there is an awareness that the increased supranationality (more majority voting and mutual recognition of each others' laws) introduced by the Single European Act of 1986, while far from politically painless, can bring very real benefits.

But most surprising has been the effect of events in Eastern Europe on the EC. If you had asked people a year ago how the break-up of the Soviet hold on Eastern Europe would affect the EC, nine out of 10 would have predicted a go-slow in EC integration, so as not to make it any harder for would-be members from the East to join the club one day.

If a Community of 20 member states could not take almost all decisions by majority vote, complete paralysis would set in

Instead, most EC leaders *(bar Mrs Margaret Thatcher)* have pressed the accelerator pedal – for two reasons. First, to bind united Germany more tightly into the Community. Second, to forge a united response to Eastern Europe, where instability has enormous military, trade and immigration consequences for the EC.

At their Roman summit in December EC states will start two sets of treaty-revising negotiations. One, in the words of the document discussed at last week's Dublin summit, is aimed at transforming "the Community from an entity mainly based on economic integration and political co-operation into a union of a political nature, including a common foreign and security policy."

A real political union is not, however, in the offing. The Council of Ministers will probably deal with more issues by majority vote; the Parliament will probably have its power of amendment commensurately extended; the Commission and the Court of Justice may get beefed-up powers to see that EC states put EC laws into real effect; and the foreign ministries *of the Twelve may be* instructed to work even more closely together.

Such changes would respond to the perceived problems of lack of democratic control, inefficiency and an international profile that does not measure up to the EC's new economic strength.

Much harder to predict is the outcome of negotiations on economic and monetary union (Emu). The reason is that the stakes are higher. "Union" here, as conceived by most states and the Commission, means shifting vital money and budget decisions to the EC level. On the other hand, there is powerful head of steam now built up behind the idea that a single market deserves a single money, and at a pace quicker than evolutionary *British concepts of monetary* union would allow.

Will such "deepening" of the EC rule out its subsequent "widening"? The new wisdom, even accepted by many in the UK government, is that the former is essential to the latter. In other words, if a Community of, say, 20 member states could not take almost all decisions by majority vote, complete paralysis would set in. Of course, the acquis (the stock of EC commitments and legislation that new members must take on) is growing fast, and treaty revisions for Emu and political union will enlarge it even more.

But two factors need bearing in mind. First, close Efta neighbours like Austria and Norway are already part of EC monetary integration, and recently asked to join the EMS. Even though the Austrian schilling shadows the D-mark closer than any other currency, both requests were refused in spring 1990 on the ground that non-EC membership of, or observer status at, the EMS could complicate the essentially political task of Emu.

Second, and far more important for the neutral and ex-communist states of Western and Eastern Europe, is that Western Europe now seems less likely, at least for the short term, to develop any kind of defence identity. It is not just that setting up new defence organisations appears inappropriate when all the talk is of disarmament. More significant is the fact that at the moment there is remarkable harmony between the US and Western Europe on East-West security issues.

In contrast to the transatlantic tension during the Reagan years – that brought revival in the mid-1980s of the Western European Union (WEU) – President Bush is moving to make Nato more political and to create a new relationship with the EC, just as rapidly and flexibly as any European could want. There thus seems no incentive for West Europe to shift security from Nato to WEU or the EC.

After 18 months of preparation, *the EC and Efta at last* fired the starting pistol on June 20 in their negotiations to create a free flow of goods, services and capital around a "European Economic Space" (EES) of 350m people.

These negotiations will probably spell the institutional end of Efta. If they succeed, Efta will acquire supranational characteristics – so that it can speak with one voice to the EC, control state aids of its members, supervise implementation of EES rules and enforce EES legal judgements. If the talks with the EC fail, Efta will collapse inward, *with half its* membership seeking to join the EC.

Most East European states – President Iliescu's Romania may be an exception – are at the moment very ready to accept economic advice and political conditions as the price of Western help. This readiness may quickly decline, if they feel they are not getting enough aid from the Group of 24 Western donors (OECD members, broadly speaking), if the EC fails to open its doors sufficiently to their goods and people.

An even bigger question is whether the Soviet Union would be ready to accept some outside supervision as price of the aid the West now seems willing to give it.

HIGH TECHNOLOGY

A world of competitors

THE PAST decade has seen a strenuous effort by Western Europe to get back into the international high technology race. The next seems likely to determine whether it can stay the course – and whether it is backing the right runners.

Since the mid-1980s, the thrust of Europe's efforts in industries from computers to telecommunications has been governed by one overriding objective: ending self-defeating rivalry between European "national champion" companies and getting them to pull together to achieve larger economies of scale.

The main policy instruments have been subsidised industrial collaboration across borders – closed with selective trade protection. The European Community's Esprit programme has been followed by a spate of government-backed Eureka research schemes and, most recently, by costly projects to develop advanced microchips *and high-definition television* (HDTV) technology.

Simultaneously, fiercer international competition and soaring development costs have prompted extensive rationalisation of the previously fragmented, nationally-based, structure of many European technology sectors.

In public telecommunications manufacturing, consumer electronics and semiconductors, a succession of mergers and takeovers has concentrated the bulk of European-owned production in the hands of two or three large groups, most of which have operations spanning several countries.

Similar trends are emerging in military contracting, where European suppliers are seeking to bolster their position ahead of defence spending cuts by absorbing smaller competitors and stitching together alliances and joint ventures.

But how successful have these developments been in creating a more competitive European presence in high-technology? Enthusiasts of collaborative research and development argue that it not only saves costs but enables companies jointly to undertake large-scale projects which they could never afford on their own.

The four-nation Airbus programme is usually held up as a shining example of the approach. From modest beginnings 20 years ago, Airbus has emerged as a heavyweight contender on the world market for commercial airliners, second only to Boeing of the US.

Yet Airbus also underlines the limits to cross-border collaboration. It is still a loosely-knit organisation with weak central management, in which effective control and responsibility for manufacturing is divided between four partner companies.

This has given each partner a strong incentive to maximise its own Airbus work share, but little interest in the consortium's performance as a business enterprise. Lack of accountability and absence of effective controls on the programme's costs have meant that efficiency has regularly been sacrificed to the principle of the *juste retour*.

In electronics, collaboration *between Siemens of West Germany* and Philips of the Netherlands in the Megaproject has helped the two companies to develop advanced microchip technology. But even those involved in plans for an expanded successor project, the Joint European Submicron Silicon (Jessi) initiative, complain that much time has been wasted haggling over the distribution of work and money.

These examples suggest that nationalistic rivalries remain close to the surface. In practice, governments and companies appear to view collaborative programmes less as a stepping-stone to creating truly integrated European industries than as vehicles for promoting their own particular interests.

Furthermore, while restructuring has produced bigger European companies, it is still far from clear that they are strong enough to survive in world markets on their own. The challenge is particularly acute in electronics, politically the most sensitive of all the advanced technology sectors.

In the next few years, Europe's chipmakers will need to spend huge sums on plants to mass-produce "standard" components, such as memories. Once again, collaboration is being mooted as the answer, notably between Siemens and the Italian-French SGS-Thomson group, which have been discussing joint production of memory chips.

However, this looks, at best, like a partial solution. Ferocious international competition has eroded profits on chipmaking to the point where they are inadequate to fund the investments the industry requires. Increasingly, these have to be financed from profits earned by manufacturing in volume products which use chips.

Yet, unlike the US and Japan, Europe lacks large, concentrated sources of demand for chips. Its computer industry is small and fragmented and, despite EC and national efforts at liberalisation, its telecommunications markets are still segmented by monopolistic procurement policies and divergent standards and regulations.

Nationalistic rivalries remain close to the surface

Recently, the electronics industry suffered a further blow when Philips – Europe's biggest consumer electronics manufacturer – was plunged into turmoil by the collapse of this year's first quarter operating profits. Philips has long portrayed itself as the foremost European bulwark against Japanese technological domination and has been a leading recipient of EC subsidies and trade protection.

The company's crisis is expected to compel it to make severe retrenchments, either by shedding loss-making activities or by seeking partners to share the burden. As the choice of potential European allies is limited, Philips may have to swallow its pride and turn to Japanese or US competitors for help.

A precedent has already been set by Siemens, which has concluded important technology agreements with IBM and Toshiba in memory chips. On a still more ambitious scale, Daimler-Benz is discussing wide-ranging collaboration with Mitsubishi of Japan in fields including vehicles and aerospace as well as electronics.

These developments are in many ways consistent with the increasing internationalisation of industry. However, they create uncertainties about the future direction of EC technology policy, which has been heavily biased towards promoting European "champion" companies and, in many cases, affording them protection against world competition.

A further challenge to European policy is posed by the rapidly shifting composition of the European industry, as US and south-east Asian companies accelerate investment in local production facilities.

Most leading Japanese and South Korean manufacturers of products such as televisions, videorecorders and compact disc players have set up plants inside the Community. In semiconductors, companies including Texas Instruments, Fujitsu and Mitsubishi are committed to large expenditures on European production facilities.

Ironically, many of these investments have been encouraged by EC measures, notably anti-dumping actions and changes in rules of origin, designed to protect European producers from overseas competition. But in the longer run, the more likely result will be to shift that competition closer to the Europeans' own backyard.

Yet the growing foreign-owned presence will also mean that more of the products consumed in Europe will be made there. In some sectors, indeed, foreign investment is growing *so rapidly that it may soon* account for a higher proportion of total output than production by indigenous companies.

In that sense, at least, Europe's attempts to strengthen its technological base and on-shore sources of supply can be said to have proven highly successful.

The question for the future is how much longer there will be a clear role for European policies which discriminate in favour of home-grown "champions" – particularly when the champions are increasingly looking to join forces with competitors outside Europe.

Guy de Jonquières
International Business Editor

John Wyles on immigration and the Community

A bolt on the door

IN THE midst of a renaissance of democratic values to the East, growing political self-confidence to the West and strengthening economic prospects across the Continent, Europe is now confronted by a problem which is both a stern test of its values and of its readiness to step up aid for the development of many Third World countries.

Western European countries are beginning to realise that in its various facets immigration touches not only domestic politics and social policies, but also international relations and the steady removal of barriers within the European Community to the free movement of people and goods. This is a much wider agenda of problems than the original view of 20 years ago that immigration largely involved controls on the entry of citizens of the Third World and the provision of employment opportunities and welfare for those that are admitted.

Governments are now learning that immigration poses a potential problem of conflicting cultures which may manifest itself in arguments in France over Muslim girls wearing headscarves to school and in Britain over Iran's attempts both to suppress The Satanic Verses and also to eliminate its author, Salman Rushdie. Unlike Americans, who see their culture as something fluid and immigrants as a potential source of social and economic enrichment, Europeans tend to be less flexible and rather fearful that immigrants are a threat to their economic and social stability.

These fears have been fertile soil for right-wing politicians like Mr Jean Le Pen in France, but rather less so for aspiring equivalents in Britain and West Germany. However, governments have responded by steadily tightening immigration controls and by offering cash incentives to encourage some of the resident immigrant population to depart. West Germany's offer of DM10,000 has not yet evoked a great response among its large Turkish minority, despite the pressure that some are said to be under to make way for immigrants from East Germany.

In seeking to curb immigration from outside the EC, most countries are bolting the door against the perceived threat of steeper waves of immigration from North Africa and the Middle East. Demographic forecasts for countries lining the Mediterranean's southern shore are startling. Currently the North African countries have a working age (15-64) population of around 67m, which will rise to around 106m by the end of the decade and to 178m by 2025.

These forecasts imply that each year over the next decade there will be a labour surplus of around 4m youths across the Arab world, with 60 per cent of them concentrated in Egypt, Algeria, Morocco and Sudan.

A labour surplus of about 4m youths from the Arab world

A growing awareness of such potential migratory pressures, allied to inescapable evidence of hostile domestic reaction in such cities as Florence to a visibly expanding illegal immigrant population from North Africa, was one factor which recently prompted Italy to introduce its first comprehensive legislative controls on immigration. Visa requirements have been reintroduced for Senegal, the Maghreb countries and Turkey and frontier controls strengthened.

Nevertheless, Italy's 2,000 miles of coastline are impossible to police effectively against relatively short illicit sea journeys from Tunisia to Sicily, and so the country may still be the EC's "soft underbelly," vulnerable to illegal entries.

But Italy's new approach is likely to be seen by its EC partners as a sufficient response to their entreaties for a proper immigration policy, and also one which should win it entry into the so-called Schengen Group, which was formally constituted last month.

It was during the negotiations on the Schengen plan to remove all border restrictions on travel between the Benelux countries, France and West Germany that Italy was made aware that entry into this group was conditional upon Rome being able to adopt broadly similar controls on immigration from outside the Community. (Schengen is unlikely to allow free movement for non-Community citizens resident in the signatory countries. Their residence and work permits will be valid only for the country which issued them.)

The process has not been a painless one for the Italian Government. Its attempt to persuade illegal immigrants to regularise their presence in Italy by lifting for six months the threat of expulsion on discovery has produced little more than 150,000 applications out of a possible illegal population of 900,000.

The introduction of entry visas has put some strains on relations with the countries affected, while the five-party coalition has been riven with disagreements over the management of controls and the provision of public housing and employment. The former is in scarce supply throughout Italy and the latter unavailable in the south of the country outside of the black economy – itself an important employer of illegal immigrant labour.

But Italy will use its six-month term in the EC presidency, beginning on July 1, to try to champion the development cause for the southern Mediterranean. This is particularly dear to the heart of Mr Gianni De Michelis, the Italian Foreign Minister, who, when he was Minister of Labour in 1987, farsightedly sponsored a conference with his North African, French and Spanish counterparts on demographics and the labour market.

Mr De Michelis will use his position as chairman of the EC's Council of Ministers to urge his Community colleagues to consider setting up a development bank for the southern Mediterranean comparable to the one being created for Eastern Europe. He also wants the Community to set itself the goal of allocating 1 per cent of its gross domestic product in aid, half of which would go to the Third World, a quarter to Eastern Europe and a quarter to the southern Mediterranean.

Finally, Mr De Michelis will also seek to harness support for the European Commission's own Mediterranean action programme.

Peter Montagnon says trade relations with the EC have assumed great importance

Why Efta is worried

THE European Community's relations with the six countries of the European Free Trade Association have attracted much less attention in recent months than its efforts to strike up new accords with the former communist countries of Eastern Europe.

Yet in the context of trade development after 1992, relations with Efta remain very much more important. Efta, which includes Switzerland, Austria, Norway, Sweden, Iceland and Finland, is the Community's largest trading partner. EC exports to Efta last year of $116bn were almost as much as its sales to the US and Japan combined.

For this reason, trade relations between Efta and the EC in the wake of 1992 have always assumed great importance in planning the single market. The debate which has ensued, however, has been fraught with difficulties as Efta countries sought to maintain their privileged position vis-a-vis the Community, without undermining their own independence and neutrality.

The two blocs have long enjoyed a duty-free exchange of trade in goods, and on the surface there is no reason why close trade relations should not continue on this basis after 1992. In Efta, however, the worries have been two-fold.

First there is general concern about whether the Community will become a trade fortress after 1992, keeping out Efta goods as well as those originating from places further afield such as Japan. Second there has been a fear, which has been borne out by statistics on investment flows, that Efta countries will lose investment as foreign firms bypass them and their own companies seek to develop business inside the Community itself.

So far, one Efta country, Austria, has sought to get round this by actually applying to join the Community. Brussels for its part has looked askance at the idea of Efta countries applying for membership of the Community *en masse*. It is still more concerned with its own internal efforts to develop the single market as well as the burden of integrating its latest members, Spain and Portugal, fully into the Community.

Developing what is known as the European Economic Space (EES) between Efta and the EC requires freedom of movement of goods, services, capital and people, but this article concentrates on the trade-related aspects of this debate.

For, in the light of the single market, the old duty-free arrangements, that served both sides so well in the past, no longer seem adequate. From Efta's point of view, the reasons for concern are evident.

Trade with the EC amounted to some 56 per cent of all Efta exports last year. Importantly for the Community, it ran a surplus of some $10bn in its trade with Efta. Community exports to Efta amounted to 60 per cent of all Efta imports.

EFTA: TRADE WITH THE EUROPEAN COMMUNITY in $m

	Imports	Exports
1985	63,875	58,145
1986	83,729	71,578
1987	102,895	88,485
1988	110,434	99,192
1989	115,885	105,787

Source: International Monetary Fund

For this business to continue to flourish, Efta needs a degree of certainty that it will not be discriminated against under EC commercial policy. The greatest degree of certainty would be achieved if both blocs were able to unite as a fully common market with a common commercial policy.

That would mean, for example, that Brussels would not impose anti-dumping or countervailing duties on Efta goods. But it would imply the extension to Efta of the European Community's common external tariff. It would mean that dumping duties applied by the EC to goods produced in third countries would also have to be applied by Efta. A full customs union could also mean extending the Common Agricultural Policy to Efta countries so that free trade in farm products, excluded from the present arrangements, could develop between the two sides.

Not surprisingly, Efta countries are hesitant about going so far. They want greater certainty in their relations with the Community, but without a loss of sovereignty that would deprive them of the freedom to organise their own affairs.

The debate on trade revolves around how to establish such certainty, but it is an ambition that creates difficulties for the Community.

In a speech to Norwegian businessmen earlier this year, Sir Leon Brittan, the EC Commissioner, responsible for competition policy, warned that "the abandonment of anti-dumping measures between the EC and Efta could in my view only be contemplated if truly equal or analogous rules of competition could be established and strictly enforced."

Without strict action by Efta countries to prevent the development of cartels, their firms would be able to charge high prices in domestic markets for goods which they could then be able to dump in the EC.

Similar arguments apply in the field of subsidies, which Efta countries could use to give themselves an unfair commercial advantage in the EC.

The EC Commission is becoming increasingly strict on subsidies. Efta has also set up a system for controlling subsidies through its ministerial council but its powers of enforcement are regarded by Brussels as weak.

One idea that has been discussed is that there should eventually be some kind of common enforcement in these areas, but Efta countries are worried both about submitting themselves to EC jurisdiction *and to rules designed by the* EC over which they themselves have no real say.

This underlies the quest for common institutions to police commercial behaviour in the European Economic Space. So far, however, it has been difficult to devise such institutions. The two sides have argued over the question of how to organise joint decision-making in the EES.

With negotiations now due to start in earnest, both sides still hope to reach a comprehensive agreement by the end of the year which could be fully implemented from January 1993 when the single market comes into force.

In a declaration early last month, Efta heads of government said an EES agreement would be acceptable only if it involved "the establishment of a genuine joint decision-making mechanism in substance and form as a basic prerequisite."

EC TRADE POLICY

The anti-dumping test

BASED ON its own assessment of itself, the European Community should be regarded as a model member of the international trading community.

Its top officials never tire of pointing out that the Community believes strongly in the multilateral trading system embodied in the General Agreement on Tariffs and Trade. In the current Uruguay Round it is trying hard to see that developing countries are more fully integrated in the system, without recourse to the blunt unilateral instruments found in US trade law.

Yet its reputation with the outside world is not so innocent as it would have it believe. EC rows with the US on farm policy questions and protracted recourse to anti-dumping measures as a means of limiting market penetration by Japan and other Asian countries suggest another side to Community policy – one ready to twist the rules to its own protectionist advantage whenever the occasion suits.

The truth about the Community's trade policy probably lies somewhere between these two extremes. Trade policy is an area in which the Community speaks with one voice. The Commission, not member states individually, negotiates in the Gatt and a common position must be agreed on each major issue among members.

Yet trade policy is also an area where the common position is arrived at by qualified majority vote rather than unanimous agreement. This is important because within the member states there are considerable divergences in approach. Broadly speaking, the southern member states tend to be more protectionist in their orientation than their northern counterparts – West Germany, the Netherlands, the UK and Denmark. These have the voting power to block protectionist proposals in a qualified majority vote, but they cannot, on their own, force through trade liberalisation.

The blocking power of these four has long been regarded as a significant factor preventing the Community from becoming a fortress in trade terms after 1992. That does not necessarily mean, however, that they are capable of winning all the arguments, or that the pressure facing the Commission to act defensively in trade issues will go away.

Against this background, the dichotomy between the way the Community is perceived by the outside world in matters of trade policy and how it perceives itself becomes easier to understand. A strong strand in Community thinking believes in the Gatt system. But another, which cannot be ignored, puts narrower Community interests first.

The Commission's approach is to work through Gatt, even though the pressures it faces may sometimes encourage a peculiarly European interpretation of what that allows.

Last year Brussels proclaimed in advance that it

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EASTERN EUROPE

Post-communist politics

PREPARING FOR Europe is the dominant theme in the politics of the Eastern European states. In every case, those who are practising the new politics – even the now hastily reformed Communists – attempt to institutionalise a *Drang nach Westen* within the developing political system.

This is not, and will not be, a simple matter. Especially in the cases of the most developed states – Czechoslovakia, Hungary and Poland – the post-communist politics must also attempt to redefine and give content to an independent state – a task made the more difficult for the lack of independent traditions. Only Czechoslovakia can claim a stable pre-war democracy; in all cases, the settled political and civil societies of an old-established nation state are lacking. They are thus emerging both into independence and into a new European order.

In part, what they will do is to help create that order. If Europe really is to stretch from the Atlantic to the Urals, it will be a different Europe from that envisaged by the creators of the Community. The ending of the Cold War releases the nations of the East from frozen subservience – there will thus be a new security order. But it also makes evident their backwardness; and thus there will be, must be if they are to avoid being immured in a Latin American world of constant crisis, a new economic order which will see a large human, technical and capital inflow from the West to the East.

These states must thus make themselves presentable to the International Monetary Fund and to the World Bank, as well as to the Western bankers, industrialists and politicians who are so important to their fate. This means adopting, rapidly, policies which will open the way to a marketisation of their economies: purging subsidies from industry, agriculture and even from some public services, and beginning the colossal task of handing over state-owned industry to private hands, native and foreign.

At the same time, they face enormous pressures. The critically important meeting of Comecon in January saw the Soviet Union adopt the logic of the new times – by proposing to make all intra-Comecon trade in hard currency from next year. This means that the East European states, used to exchanging sub-standard manufactures for valuable and underpriced Soviet oil, will be faced with vast deficits with the USSR where before they had, in many cases, been used to surpluses.

Second, the absorption of the East German economy into that in the West will render efficient enterprises which were once part of the backward Comecon system. The other Comecon economies, without West German support, must attempt to keep pace.

The strains are beginning to be evident. In Poland, the crash programme associated with Dr Leszek Balcerowicz, the Financial Minister, has brought down inflation, reduced queues and is now forcing the closure of bankrupt enterprises and causing soaring unemployment. The critical question is how quickly Poland can attract major foreign investment, and itself develop a viable export sector. So far, it is a slow process.

In Hungary, the new Democratic Forum-dominated government has declared it will introduce a "social market economy" – but will eschew the (Polish-style) shock treatment. It will move against the 50 bankrupt enterprises targeted by the previous (Socialist) government; will encourage privatisation in the service sector particularly; will produce a package of enticements for foreign investment; and will seek, after a short time, growth levels of 3 to 4 per cent, necessary if repayments on Eastern Europe's largest per capita debt are to be made.

A "Marshall Plan" would be an awful admission of failure

In Czechoslovakia, the success of Civic Forum in the polls earlier this month should mean that the programme of economic change identified most closely with Mr Vaclav Klaus, the Finance Minister and Mr Vladimir Dlouhy, the Deputy Prime Minister in charge of Planning, gets a fair wind. In fact, considerable tension exists between Mr Vaclav Havel, the President, and the radical reformers: the President is concerned with the maintenance of national unity and the avoidance of over-divisive policies: the radicals believe both have to be risked if the reform is to work in time.

Yugoslavia also introduced shock treatment at the beginning of this year: it has been similar to Poland in its results. Inflation has come down from the rate of 28,000 per cent a year to 4 per cent a month, and the dinar now attracts confidence rather than derision: also like Poland, the hard currency reserves have benefited. But in Yugoslavia, too, the structural reforms are slow in coming through: the banking system remains a slave to the enterprises for which it still prints money, and the enterprises themselves continue to exist in an ownerless vacuum, with control vaguely defined between management, workers and central and local authorities.

Bulgaria and Romania have barely started reforms: both are still controlled either by Communist, or leftist, regimes. The much greater backwardness of the latter economy will mean its route towards Europeanisation will be slower than the rest; while Bulgaria's economy will remain very largely dominated by that of the Soviet Union for some time to come.

The Soviet Union itself must still struggle with its old ambiguity – is it, or is it not, a European state? President Mikhail Gorbachev has been perhaps the most pro-European of any of its leaders, Communist or Tsarist: perhaps he had no choice, since the admission that the Soviet system had failed to deliver anything like European living standards had to be attended by a strategy of dependence on the West.

President Gorbachev has resolutely refused to countenance aid from the West: but in the last month, his advisers have begun talking about just that, even canvassing a "Marshall Plan" on the lines of the US funding of the reconstruction of post-war Europe.

To make this Soviet policy would be an awful admission of failure – and would hand over many of the decisions about economic strategy to the international financial institutions, which would inevitably set hard terms for their aid. But what else is left? There is minimal hope of large investment because of the political risks, the problems of convertibility and the low productivity of labour; and thus, barring a miraculous upturn in the country's economic performance, we may expect to see it join the East European queue. Indeed, we must hope it does: for the alternative is a retreat into autarky, with all the instability that will bring.

John Lloyd

EC policy on anti-dumping

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would refuse to negotiate bilaterally with the US on any trade complaints raised under Washington's Super 301 trade legislation. Super 301 required the Bush Administration to identify and negotiate away barriers to US exports under threat of sanctions. Because of the EC's pre-emptive stance, it was not targeted by Washington for action under this legislation.

As the Uruguay Round has proceeded, bilateral transatlantic trade disputes have in any case fallen out of prominence. Little is heard these days of the dispute on Airbus subsidies, or the EC's broadcasting initiative, or the question of local content for printed circuit boards on which much energy was spent last year.

Instead, the focus of EC/US trade relations has concentrated heavily on the Uruguay Round dispute over farm reform, where the Community has resisted pressure from the US and other farm exporting countries to negotiate directly on policy measures such as export subsidies.

The Community fear is that such a negotiation would quickly jeopardise its whole Common Agricultural Policy which depends on a two-tier pricing system in which domestic prices are higher than those on the world market. It would prefer to negotiate reform in the Uruguay Round by means of an aggregate measure of support that would allow governments to choose their own agricultural policy approach while reducing overall support to farmers.

Given the pressure being applied to the EC by other leading players in the Round, one test of its actual commitment to the multilateral trading system will be the way it chooses to handle this problem. It is accepted in international trade policy circles that the Uruguay Round will be a failure unless it can agree meaningful reform of world farm trade. A failure of the Round would mean failure for the multilateral system itself. Thus, the Community faces a particularly stark choice.

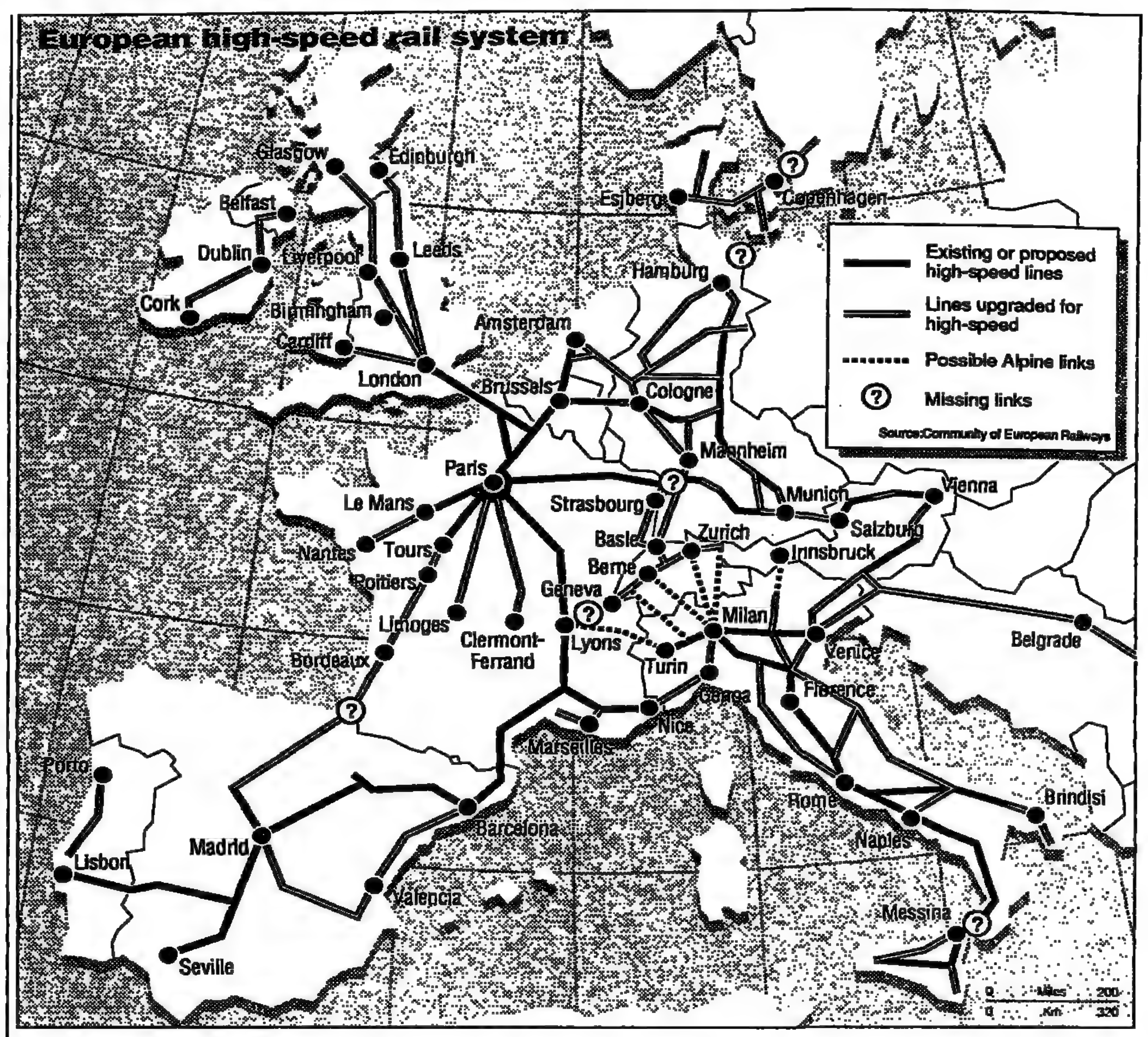
Another test of its commitment to the system lies in its relations with Japan, after a Gatt decision earlier this year that the measures used by the EC to combat circumvention of its anti-dumping duties were illegal. The EC has agreed to adopt this finding but says it will not change its legislation until after the Uruguay Round discussions on revising Gatt's anti-dumping code are over.

The Gatt panel finding was embarrassing for the EC because of its long-standing assertion that its anti-dumping measures were in full conformity with the Gatt. At the same time, however, it had been reluctant to negotiate in the Uruguay Round on changes which would make its anti-dumping rules harder to apply by restricting the leeway for Gatt members to engage in what some critics have called sleight-of-hand in calculating anti-dumping margins.

Though the formula the EC uses in this respect is legal under the terms of the present code, it is tilted in favour of finding that dumping has occurred. Actions against high-technology imports from Japan and other Asian countries proliferated in the late 1980s, suggesting that this instrument of trade policy might be used for covert protectionist action. Anti-dumping thus became a unilateral policy weapon, against the spirit of the multilateral rules even though it was within the letter.

The willingness of the EC to negotiate new anti-dumping rules in the Uruguay Round over the next six months will be a further test of its commitment to a multilateral trading system. Its failure to bite the bullet would make it hard for the EC to claim that its trade policy priority really was the health of the multilateral system. The prospect of Fortress Europe would then loom a great deal closer.

Peter Montagnon
World Trade Editor



Richard Tomkins looks at the Community's transport policy

Pressure for integration

THE Single European Act does not mince words. From December 31 1992, the 12 countries of the EC will comprise "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured."

If that sentiment is to have any meaning at all, the transport industry will have a crucial role to play in the economic integration of the Community. In a wider European context, the roads and railways will provide the physical means of linking East and West as the Iron Curtain comes down. It is easy, then, to be carried away by visions of a time when there will no longer be any perceptible difference between a journey undertaken within a nation state and one that takes people and goods across frontiers.

But a look at the record since the Treaty of Rome was signed in 1957 soon restores sobriety. According to the treaty, a common EC transport policy was to have been in place as long ago as 1970. Twenty years later, it is little more than a dream.

The reasons are not difficult to fathom. Transport networks that have taken decades, even centuries, to evolve were constructed to serve national needs, not international ones. Each country has its own rules and regulations: likewise, its roads and railway lines tend to lead to its capital, not to its borders.

However, some progress has been made towards harmonisation. Common rules have been agreed, for example, on lorry weights and drivers' hours; agreement on multi-modal containers has greatly eased the passage of international freight; and restrictions on cabotage – the right of "foreign" hauliers to pick up and deliver goods in another member state's borders – should be abolished by the end of 1992.

The railways, however, remain technologically divided, with track and loading gauges, signalling systems and electric locomotive voltages varying from country to country. But the Commission's view is that railways have an important, if not pre-eminent, role to play in overcoming Europe's inadequate transnational links.

In the road sector, economic growth and rising prosperity have brought congestion to the point where, in the triangle bordered by Birmingham, Essen and Paris, it is semi-permanent in nearly all the main traffic corridors. More road construction is planned, but environmental and land-take considerations limit the extent to which this can continue as a policy option.

Air travel, too, has seen growth on such a spectacular scale that airports and airways are nearly full and delays are becoming endemic to the system.

Rail scores above road and air on several fronts. For international freight, it beats road haulage in terms of speed, economy and environmental acceptability. For international passengers, it beats road travel for speed; and advances in high-speed train technology mean it can increasingly outperform air travel on centre-to-centre journey times.

With domestic traffic many times larger than international flows, it is not surprising that high-speed rail networks in West Germany and France have been designed for internal use, with little regard for the provision of international connections.

But the Channel Tunnel has changed all that. By opening up the opportunity to run frequent, high-speed rail services between London, Paris and Brussels, it has inspired the Community to look beyond national frontiers and towards the development of a truly European high-speed rail network.

The Commission has drawn up an ambitious set of proposals aimed at filling in most of the rest of the gaps between Europe's rail networks. One, for example, would provide a link between West Germany and Scandinavia; Alpine rail passes would link northern Italy to the central European network through Austria and Switzerland; and a route across the Pyrenees would improve Franco-Spanish links.

The Commission's view is that the provision of transport is so fundamental to Europe's prosperity that these vital links should be financed through Community funds. Yet objections by member states have consistently ruled out attempts to secure a budget beyond the token Ecu60m which Mr Karel van Miert, the Transport Commissioner, has at his disposal.

But in a unified Europe, increasingly bedevilled by congestion, the pressures for an integrated transport system will grow.

A look at progress towards the single financial market

Banks seem set to move cautiously

WHEN THE Bank of England published its latest quarterly bulletin in May it pointed out a significant figure: the volume of business conducted between European-based banks in the first nine months of 1989 was more than double the volume for the whole previous year.

This increase, which the Bank described as "unexpected" was, it said, "almost certainly stimulated by the plans for a single European market by the end of 1992." The Bank attributed the surge particularly to the lifting of such few exchange controls as remained in France, Italy and Denmark, as well as the growing presence of the big Japanese banks on the continental markets.

Blood is beginning to course through the market's veins

It was the first real evidence that blood is beginning to course through the veins of the single financial market. Even though the deadline is still more than two years away, many of the institutional changes shaping that market are already in place.

The removal of exchange controls (most are due to go this summer) is almost certainly the most important because this will hasten the unification of the member countries' dealings in capital and currencies. But measures to create the "passports" that will allow banks and securities houses to move freely around the EC are also ready – or nearly so.

The sense of anticipation that is building up in the financial services sphere about 1992 is unmistakable. But the question is whether it is fully justified. While there are plenty of bankers and dealers who see historic changes in the offing and are positioning themselves to take advantage, there are many others who predict that 1992 will be a great anti-climax – or at least an event that should be approached with caution.

The view that great changes are afoot is reinforced by deals like Deutsche Bank's £1bn acquisition of Morgan Grenfell, the London merchant bank, at the beginning of this year. The largest deal of its kind, it showed how one of Europe's top financial institutions was expanding geographically and acquiring new skills to achieve super-bank status.

But Deutsche is pursuing a rather lonely path. None of Europe's other big banks have been anything like as expansive. The only one that comes close is Crédit Lyonnais of France, which has been steadily acquiring small or medium-sized retail banks around the EC with a view to covering the Continent in branches.

Securities dealing is tending to move to the most liquid markets

Other banks have preferred to form alliances or take up cross-shareholdings so as to have "friends" across the Community. These have proliferated. According to a study by KPMG Peat Marwick McLintock earlier this year, there were no fewer than 185 cross-border links between financial institutions in the six months to February 1990, suggesting that the EC is gradually being pulled together by a network of relationships.

There are many reasons for this caution. One is that 1992 will make little difference to the wholesale banking market serving the multinational corporations. This already transcends borders. Indeed, the unification of Europe could even cause this market to shrink because much of it thrives on helping companies cope with differences in currencies and interest rates which would disappear if monetary union ever became a reality.

Another is that domestic banking markets are notoriously hard for outsiders to penetrate because of strong national cultures. Acquisition may do the trick, but that poses big management challenges – even if banks are available to buy which, by and large, they are not.

McKinsey consultants Messrs Heino Fassbender and Peter Wuffli argued in a report this spring that European banking would remain "a local business", though they warned that competition in national markets would intensify after 1992 because of the inflow of new products and ideas.

A third reason for caution is that relationships need a lot of tending if they are to be made to work. Although some analysts have pointed to the growth of "constellations" of loosely associated financial services companies as a possible pattern to the future, one of the best-known constellations – that grouped round Pargesa/Groupe Bruxelles Lambert – is beginning to come apart. The group has sold many of its stakes, and it recently put its 62 per cent share in Henry Ansbacher, the London merchant bank, on the block, citing a disappointing lack of synergy.

A much more striking trend than cross-border acquisition has been domestic consolidation. Banks in smaller countries such as the Netherlands, Denmark, and Switzerland are rushing to merge into groups which they hope will be big enough to compete with the powerful international battalions.

Europe's new central bank may end up in a compromise location

The securities industry has also seen its share of cross-border acquisitions, particularly in London and Paris where most of the major brokerages have been bought up. But the combination of the stock markets of Europe is proving hard to achieve because of widely differing practices. Instead, securities dealing is tending to migrate of its own accord to the most liquid markets, mainly London, which looks set to become the financial capital of a unified Europe.

This status will shortly be enhanced by the opening of the new European Bank for Reconstruction and Development in the City. This will act as a focus for the financing of East European economic reform – itself a major, if still distant, factor in the the redrawing of Europe's financial map.

Also vital to the future shape of Europe will be the location of the new European central bank, or Eurofed. Although London and Frankfurt look like strong candidates, the chances are it will end up in a compromise location such as Luxembourg or Amsterdam.

There is little doubt that the financial services industry will play a vital role in pulling Europe together, both within the EC and between East and West, because it will act as the channel for capital and investment. But the evidence so far suggests that it will reach this role through steady evolution rather than a dramatic and rapid restructuring. Although 1992 has inspired many bankers to talk of great challenges, it has also filled many of them with apprehension, and there are just as many bankers and brokers who have rushed to protect their old markets as have sallied forth to conquer new ones.

David Lascelles
Banking Editor

Eastern Europe's pollution problems have given new impetus to the EC's environmental initiatives, reports **David Thomas**

A distinct change of gear

THE ENVIRONMENTAL map of Europe – no less than its political and economic landscape – has been transformed by the collapse of the Iron Curtain.

The discovery of an environmental disaster on a scale difficult to comprehend was one of the first fruits of the crumbling of censorship in Eastern Europe. The more prosperous Northern European countries have in the past adopted a greener-than-thou attitude to the Mediterranean nations. But these environmental tensions paled into insignificance once the West had had a chance to glance at the pollution problems of their fellow Europeans to the East.

Forty years of Stalinist emphasis on heavy industry, coupled with obsessive secrecy and repression of nascent green movements, have left a dismal legacy. Just how dismal was spelt out last month at a conference in Dublin – the first of its kind – between European Community environment ministers and their East European counterparts.

The Eastern bloc ministers appeared at times to be vying with each other as to who could tell the bleakest story. Some 55 per cent of East German forests are damaged, while more than 40 per cent of its waste water is untreated, reported Mr Karl Steinberg, East Germany's Environment Minister.

Czechoslovakia could beat that: about 70 per cent of its trees are blighted by pollution and only a third of its sewage is adequately treated. Mr Bronislaw Kaminski, the Polish Minister, went one better by dubbing the Silesian industrial belt "the most polluted part of Europe."

For once, there was no hint of political exaggeration when Mr Carlo Ripa di Meana, the EC's flamboyant Environment Commissioner, summed up the conference with the words: "We are talking about the survival and health of our continent."

It is not just the health of the Continent which is under threat. Policy-makers in Europe are also increasingly aware that wildly divergent environmental standards will put at risk the process of integrating Europe economically. This was one consideration underlying the EC's decision to draw up an environmental code of conduct for West European companies setting up in the East: Brussels wants to scotch at birth any thought of taking advantage of East Europe's primitive environmental regulations to gain a competitive advantage.

The perception that environmental standards have a role to play in trade and investment decisions explains their inclusion in the Single European Act, which acknowledges the need to combine free trade objectives with a high level of environmental protection.

"The internal market will not succeed without strict standards on the environment," argues Mr Laurens Brinkhorst, the forceful Dutch official who heads directorate general XI, responsible for the EC's environment policy. "Countries like Germany, the Netherlands, Belgium and France will go for high standards in any case. So either we have them throughout the Community, or they will become a barrier to trade."

The ministers appeared to be vying with each other as to who could tell the bleakest story

Mr Brinkhorst dismisses fears that high environmental standards within the EC could help to price European goods out of world markets by referring to his stint as EC ambassador to Japan. "Japan adopted tough environmental standards in the 1980s partly because Tokyo was a mess, but also because the Japanese realised it made good business sense ... As early as 1982, there was not a single Japanese car in Tokyo which did not have a catalytic converter. Did this damage the competitiveness of the Japanese car industry?"

Until now, the Commission has drawn mainly on one weapon – regulation – from the arsenal of possible measures to promote a greener Europe. It has prodded EC countries to cut power station emissions of sulphur dioxide, the main cause of acid rain; it has put in place a directive requiring the fitting of catalytic converters on all new cars by 1992; and it has laid down minimum standards for water cleanliness and for waste disposal, not hesitating to prosecute countries which infringe these standards.

The derisory amount of cash allocated for EC environmental measures – 0.1 per cent of the total EC budget, on Mr Brinkhorst's estimate – meant there was little alternative. But a distinct change of gear can now be detected within the Commission. "There is a change in approach. In many areas, we have the regulations in place which we need. We are moving out of the phase where we rely simply on strict regulations," explains one senior Commission official.

The Commission is now working on a range of initiatives to complement its traditional emphasis on regulation:

● **Environmental taxes.** The Commission is preparing a policy document on the new fashion for environmental taxes, such as on lead in petrol and on plastic bags. The trend has implications for both environmental and trade policy: a tax introduced for sound environmental reasons could, perhaps inadvertently, act as a barrier to trade. "We must have order in the house, if we are to avoid environmental protectionism," Mr Brinkhorst says.

● **Spending programmes.** EC environment officials can influence the direction of Community spending, not through direct cash handouts, but by monitoring the very large amounts of cash dispensed under the EC's structural and regional programmes.

A small team of officials has been established in the environment directorate-general to monitor the environmental implications of, for example, a proposal for a large EC-funded road building programme in Portugal. "When the decision to fund is subordinate to our approval, it gives us considerable influence," says one of the officials.

● **Best practice.** The Commission is now working on initiatives which would spread environmental best practice throughout the Community without relying on mandatory directives.

One example is its proposal for a "green labelling scheme" whereby companies could pin an environment-friendly label on products which had passed certain tests. Companies will not be obliged to submit their goods for approval under the scheme, but, in the era of green consumerism, those which fail to do so are in danger of losing out.

The EC's new European Environment Agency will have a key role in spreading the often patchy information about best environmental practices throughout Europe. The agency will now be at the forefront of the drive to clean up the East, since agreement to allow Eastern European countries to participate in its work was one of the main results of the Dublin conference.

East Europe's environment ministers surprised their counterparts in the West by not holding out a begging bowl at Dublin. Access to Western environmental technologies and information gathering procedures was what they wanted. "In our country, we are just starting to build up an environmental protection system," said Mr Josef Vavrousek, the Czech Minister.

Guy de Jonquières considers the likely effects of the single market

Pressure on companies to strive for size

IN THE five years since European Community leaders launched their ambitious programme to create a unified EC market, the contours of the economic and industrial landscape on which the new order is being constructed have undergone sweeping change.

So far, however, the transformation is due only indirectly to the impact of EC legislation. Though 149 of the 282 measures in the EC's internal market white paper had been approved by the Council of Ministers at the start of June, few are yet fully in force. Indeed, only 2½ years before the end-1992 deadline, only 18 directives had received parliamentary ratification in all 12 EC countries.

Furthermore, tough bargaining lies ahead on a number of the 130-odd proposals on which the council has still to decide. Among the thorniest are indirect taxes and the liberalisation of sectors including insurance, telecommunications services, pharmaceuticals and transport. Little progress has yet been achieved, either, on energy, though this is formally not part of the white paper.

However in, few, if any, sectors have companies waited on the completion of EC legislation to position themselves in preparation for the single market. Indeed, the past few years have seen an explosion of restructuring, rationalisation and international diversification without precedent in Europe's industrial history.

Much of this activity is exactly what the authors of the 1992 programme hoped to provoke. European companies have abandoned long-standing inhibitions and ventured into each others' home markets – both as competitors and as partners – while fragmented and overcrowded industries such as power engineering and telecommunications manufacturing have been restructured into larger groupings.

The prospect of 1992 has undoubtedly injected psychological impetus into this process. However, many of the stimuli to which companies are now responding also stem from global forces which affect businesses almost everywhere. Indeed, as the 1992 programme has advanced, it has come to look increasingly like a means of facilitating – rather than originating – change.

In effect, the programme has coincided with the convergence of two trends. One is the erosion of barriers around established home markets brought about by technology, deregulation and shifting costs. The other is the decreasing ability of companies to survive simply on the basis of those home markets.

The consequent drive to internationalise has led European companies to look well beyond European horizons. Despite the surge in intra-EC mergers and acquisitions last year, it was greatly exceeded by the number and value of deals made by European acquirers in the US. That discrepancy can only be partly explained by the greater openness of the American market to takeovers relative to many European countries.

Nevertheless, for many European companies, broadening and strengthening their European base is an overriding strategic priority. It is becoming clear that that objective can only be partly met by stepping up trade across EC frontiers. In many cases, companies have concluded that it requires a bigger presence on the ground, whether by mergers and acquisitions or by alliances.

The approaches chosen are highly specific to individual industries – and often to the companies within them – and are closely related to their particular economic circumstances. Furthermore, some contradictory trends appear to be at work.

In chemicals, for instance, which has already undergone substantial restructuring at a European level since the early 1980s, an important aim among suppliers has been to sharpen the focus of their businesses. The shedding of peripheral operations and acquisition of others has helped stimulate a vigorous market in cross-border mergers and acquisitions.

Companies may have made takeovers to grasp a fleeting opportunity rather than because the acquisitions fitted well with their businesses

Increased specialisation has also been a trend in the electronics industry, where companies including Philips of the Netherlands, Thomson of France and Ericsson of Sweden have reversed earlier efforts at diversification and sought to concentrate selectively on "core businesses."

By contrast, in other sectors, accelerated diversification has been the pattern. A striking example has been the primarily continental phenomenon of growing links between banks and insurance companies, both within countries and across borders. In the motor industry, Daimler-Benz has expanded by acquisition in defence, aerospace and electronics, while BMW has involved itself in aero-engine manufacturing.

Consumer industries, such as foods, drink and confectionery, have been among Europe's most active cross-border acquirers. Their main objective has been to secure locally-established brand names and access to local distribution networks. But the logic of that thrust is being challenged by the emerging trend for retailers to join forces across borders to centralise purchasing.

In parallel with outright acquisitions, there has been a surge in joint ventures and alliances, such as the pooling of the power engineering businesses of Britain's GEC and France's Alsthom and the flood of recent deals between leading European airlines.

A common theme in most of these developments is the search for scale. In almost every industry, companies argue that to survive on global markets they need rapidly to acquire the market share and productive apparatus to put them among the leaders in their particular sector.

In a sense, this is a self-fulfilling argument. The more capacity becomes concentrated, the greater the pressures on companies to strive for size. However, the trend raises a number of questions. Does size necessarily bring efficiency and strength? And will industrial concentration thwart the keener competition which many economists consider the most salutary consequence of a single market?

For all the emphasis which businessmen place on the importance of scale, it does not guarantee competitive dynamism. Philips, for instance, is a world leader in lighting and consumer electronics, yet its recent profits record has been at best mediocre – and, since the start of this year, catastrophic.

There is also evidence that mergers and alliances are tricky to manage effectively. The failure of many large cross-border European mergers initiated in the 1970s, such as Dunlop-Pirelli in tyres and Hoesch-Hoogovens in steel, is a harsh reminder of the challenge.

Perhaps European companies have learned some lessons from those experiences, such as the importance of establishing clear management control from the outset and of acting speedily to rationalise combined businesses. However, the recent teething troubles at CMB, the large packaging joint venture between Carnaud of France and Metal Box of Britain, suggest that even when these basic principles are implemented, management integration can remain a daunting task.

There are also grounds for suspecting that some cross-border expansion may have been motivated more by opportunism than by clearly-thought-out industrial logic. In certain cases, companies may have been stampeded into making takeovers because they felt they had to grasp a fleeting opportunity rather than because the acquisitions fitted well with existing businesses.

Several mergers and alliances have also been made primarily for defensive reasons. This has been particularly true in financial services, where medium-sized banks in a number of European countries have got together for fear that they would otherwise be taken over. It remains to be seen how far these links will yield tangible commercial benefits.

Still another category of industrial restructuring has been heavily influenced by the desire to defend vulnerable domestic market positions. This is particularly true in sectors which have been heavily protected from competition and ruled by monopoly-monopsony relationships.

Defence contracting is a particularly obvious case. Soaring development costs, coupled with the prospect of declining defence budgets, have recently spurred a concentration of supplier industries at national level and the development of cross-border collaborative alliances.

Simultaneously, the prospect of liberalisation of air transport has stimulated a spate of mergers, cross-shareholdings and collaboration agreements between European airlines. The carriers argue that these deals are designed to strengthen them against international competition. Critics, however, argue that these agreements amount in many cases to collusive non-aggression pacts designed to pre-empt competition.

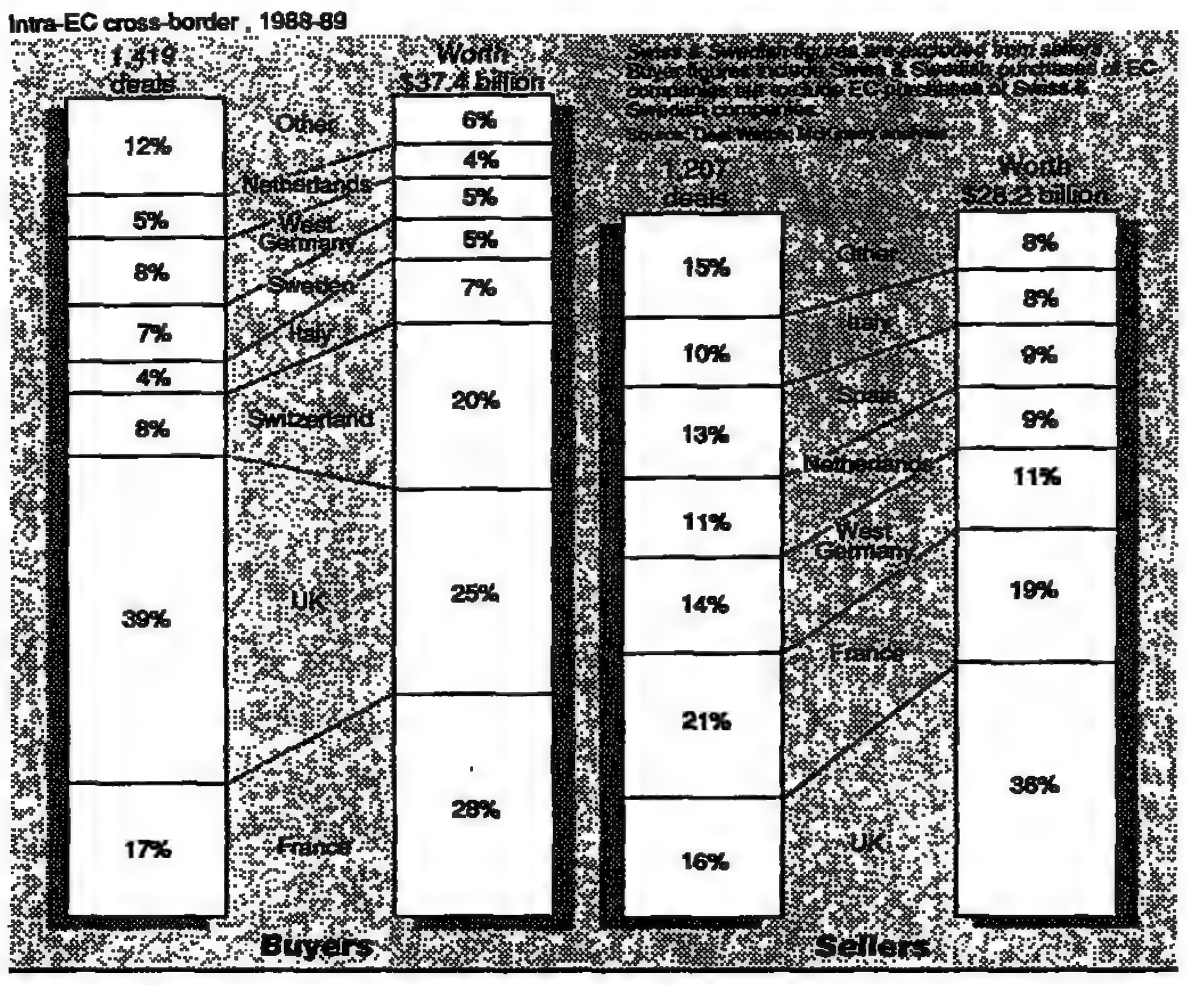
How far the workings of the single market are threatened by industrial concentration will depend in large measure on competition policy. The European Commission, after many years of lobbying, has persuaded EC governments to give it increased powers to control large mergers, which will come into force next September. Simultaneously, some national authorities, notably in the UK and France, are also starting to stiffen their policing of mergers.

Against that, the idea of breeding European large "champions" also continues to exert considerable appeal. The West German Government overruled objections by its Cartel Office to Daimler-Benz's takeover of the MBB aerospace group, while the EC has awarded extensive subsidies and trade protection to such companies as Philips and Thomson in the belief that they would thereby be strengthened in competition against non-European rivals.

More time will be needed to judge how far the efficiency and competitiveness of European industry has benefited from the rapid changes of the past few years. Restructuring has been greatly assisted by the resurgence of growth since the mid-1980s. However, the buoyant economic climate has also increased companies' margin for error. The real test may have to await the next downturn in the economic cycle.

Mergers and acquisitions

Intra-EC cross-border, 1988-89



Kevin Done on the prospects for car and truck makers

The weak cannot stand alone

JOCKEYING FOR position in the world auto industry has intensified as the leading car and truck makers seek to face up to the challenges of fierce competition in the 1990s.

Even the biggest players realise that they cannot stand alone in the coming decade. Further consolidation of the world industry is occurring in a rapid-fire series of takeovers, mergers, alliances and co-operative ventures.

Car makers around the globe face the pressures of Japanese competition, rapidly rising research and development costs, tougher environmental regulations, the challenges of a single European market and the opening up of East Europe. It is not a climate in which the weak can survive alone.

The prospect of a single car market in Europe, however imperfect it may be given the obvious intent of Community governments to continue some restraints on Japanese car imports, is only one of the catalysts for change facing Europe's vehicle makers. For it is to Europe, at the beginning of the 1990s, that the focus of restructuring has moved.

Ford has taken over Jaguar, the UK luxury car maker for £1.4bn, General Motors has taken a 50 per cent stake and management control in the loss-making Saab car operations, and Renault of France and Volvo of Sweden are entering an ambitious alliance encompassing their car and truck operations.

In trucks the Austrian Steyr operations have been bought by MAN of West Germany which, with Daimler-Benz, plans to acquire Spain's Enasa, though that deal has been challenged by German and EC competition authorities. Iveco, the Fiat subsidiary, is setting up a joint venture with Ford to run the US group's heavy truck operations.

Jaguar and Saab were only the latest small volume producers in Europe to accept that independence was no longer tenable. Before them Alfa Romeo and Ferrari had been swallowed by Fiat, and SEAT of Spain was absorbed by Volkswagen. The smaller specialists had already fallen, Lotus to General Motors, Aston Martin to Ford and Lamborghini to Chrysler. In recent months Fiat has virtually completed its monopoly position in the Italian motor industry by taking effective control of Maserati and Innocenti.

Mr Pehr Gyllenhammar, chairman of Volvo, who is leading the Swedish group into the alliance with Renault, maintains that "the economies of scale lie not primarily in production but in technology development and product development. We have big advantages to gain in these areas and in purchasing."

According to Mr Roger Holtback, head of Volvo's car operations, "when you see sky-rocketing development costs and increased globalisation, you must have the necessary volumes and engineering capacities."

For Mr Raymond Levy, chairman of Renault, several pressures are forcing the pace of auto industry collaboration:

● the danger of a downturn in the record European car and truck market,

● questions of "the very acceptability of the automobile", its effects on the environment with air pollution, noise, traffic congestion and safety.

● the quickening pace of technological change, sharply rising R&D costs, the launching of new models at closer and closer intervals,

● the ballooning of capital expenditures and marketing costs "as competition becomes more fierce with the attendant risk of a price war",

● and, overshadowing all these elements, the Japanese threat, the building of Japanese production and engineering capacity inside Europe, and the expectation that Japan's share of the European market could rise to 18-20 per cent from around 11 per cent at present (9.5 per cent within the European Community), implying the possible elimination of one of the present volume car players in Europe, whose shares vary between Renault's 10.4 per cent and VW's and Fiat's 14.9 per cent.

The possible elimination of one of Europe's volume car players

So far, the US car makers have been bearing the brunt of Japanese competition, as cars have rolled in increasing numbers off the lines of the Japanese assembly plants developed in North America during the second half of the 1980s.

However, the focus of Japan's effort to build a global car production base has already turned to West Europe.

Nissan, Toyota and Honda are developing car plants in the UK, and Mazda and Mitsubishi are expected to announce their first moves into European production later this year.

It is unclear to what extent the North American experience in components will be repeated in West Europe. Japanese vehicle assemblers have claimed that they will seek to use existing components makers in Europe to supply their local assembly plants, but some giants of the Japanese automotive components industry are determined to follow the assemblers by breaking into the European market.

In theory the single market should spell the end of the long era of protectionism in Europe, which has allowed West European car makers to shelter behind quota restrictions – official and unofficial – against Japanese car imports in leading European markets, Italy, France, Spain, and the UK as well as in Portugal.

The European Community is still in disarray over the formulation of a motor industry trade policy, however, although the contours of a possible consensus have begun to emerge in recent days.

After bitter wrangling in Brussels, EC governments have authorised the European Commission to negotiate "transitional" restraints on Japanese car sales after 1992. The Commission judges such arrangements politically necessary to persuade Britain, France, Italy, Portugal and Spain to eliminate long-standing national import curbs, which are incompatible with the planned single market.

It does not aim to enshrine the restraints in a formal agreement. Instead, it is seeking a bilateral deal, whereby Japan would undertake to "monitor" its car sales in Europe, so as to keep them within EC-prescribed limits. Japan has indicated that it will contemplate some restraints on exports, though not beyond the end of the century.

Exactly how these arrangements might operate has yet to be determined. But once the EC's internal customs barriers fall, ways would have to be found to stop leakage of Japanese cars from open markets such as West Germany to protected ones. Current thinking favours reliance on national registration controls or commitments by dealers to sell the cars only in their home markets. Both measures would segment the single market for the EC's most important industry.

The most contentious issue, though, concerns Japanese-owned EC "transplants". The Community wants in effect to include these in the overall restraints by counting their output against total direct imports from Japan. Such a stance would still allow the UK Government to insist that UK-built Japanese cars gain free access to all EC markets.

In recent months the flurry of deal making in the European auto industry has moved into Eastern Europe, a market for long virtually closed to Western vehicle makers.

Leading car and truck makers are anxious not to be excluded from the opportunity to carve out a presence in this suddenly emerging market, but at the same time are uncomfortably aware of the enormous costs and political uncertainties involved in modernising Eastern Europe's antiquated car and truck industries.

The pace is unremitting, and the decade of the 1990s is not for the faint-hearted in the European auto industry.

DEFENCE AND SECURITY

Nato and the Warsaw Pact: a balance of power upset

AS THE political and economic barriers come down between Eastern and Western Europe, no-one is any doubt that new structures for organising European security will have to be found. Both Nato and the Warsaw Pact are well aware that their huge military arsenals, built up at a time when each side feared attack by the other, have become largely superfluous in what is fondly hoped will be an era of peaceful co-operation. Nor can either camp – least of all, the Soviet Union and the Eastern European countries – afford to reject the enormous "peace dividend" of at last being able to switch scarce resources from armaments to more productive economic sectors.

However, reorganising military alliances, particularly at a time of continuing political uncertainty in the Soviet Union and Eastern Europe, is easier said than done. A situation in which it was easy to identify the enemy and organise oneself accordingly, has been replaced by the virtual self-destruction of one of the competing political and military systems. Yet however much the dissolution of the communist systems of much of Eastern Europe and the Warsaw Pact as a military alliance may be welcomed by the West, the resulting disequilibrium is not necessarily conducive to greater stability in Europe.

There is something reassuring about a balance of power. Once that balance has been upset, the weaker camp, in particular, will be anxious to reorganise the whole security system in a manner which will neutralise the superiority of the other side. That is what has happened in the aftermath of perestroika and glasnost in the Soviet Union and the democratic revolutions in Eastern Europe.

In the knowledge that former allies such as East Germany, about to be unified with its big Western sister, and possibly others like Hungary, will want to leave the Warsaw Pact altogether, Moscow is pressing for the two military alliances to be progressively subsumed in a new pan-European security system. Such a system would be set up in the framework of the Conference of Security and Co-operation in Europe (CSCE), strengthened with new institutions.

Not surprisingly, the Nato countries have shown not only less urgency, but even considerable scepticism about the feasibility of creating a pan-European military security system, as distinct from a joint East-West political forum. The Western countries consider that they have won the political battle in Europe largely because their alliance stood firm throughout the troubled post-Second World War period. If major wars in Europe were avoided for more than 40 years, it was largely thanks to the strength and unity of Nato, according to the the standard Western argument.

"Our Alliance remains vitally important as an instrument both for ensuring the security of its members and the stability of Europe and as a keystone of our efforts to build a new European order of peace," the Nato foreign ministers declared after their meeting last month at Turnberry, Scotland.

That does not mean that Nato is insensitive to the declared efforts of the Warsaw Pact to transform itself into a political rather than a military alliance and to the need for further arms reductions. On the contrary, it has explicitly acknowledged that the new climate in the Soviet Union and Eastern Europe, together with the prospect of German unity, requires "new patterns and structures of co-operation," and that an institutionally strengthened CSCE is probably the best instrument for this purpose.

What the Nato countries do not accept, however, is that the CSCE can somehow replace existing organisations as an effective guarantee of the *military* security of all European nations. Making haste more slowly has become the watchword of the West. Certainly, a start should be made by turning the CSCE into a more effective political and economic forum with a Council of Ministers meeting at regular intervals. Its activities could be further enhanced by the creation of special conflict management and arms control verification centres.

Make haste more slowly has become the watchword of the West ... It is much too early for it to lower its guard completely

Yet the extraordinary progress towards democracy, made in the Soviet Union and Eastern Europe in recent months, does not mean that armed conflicts have been abolished for all time, Western governments argue. The political and economic situations in the Soviet Union and Eastern Europe remain extremely fragile. The West must adapt itself to the new situation in appropriate ways, but it is much too early to lower its guard completely, merely to match the crumbling of the Warsaw Pact.

In practice, this means a different set of priorities for Nato and the Warsaw Pact. Nato is anxious not to put the cart before the horse. Though they have accepted that a CSCE summit should be held in November, the Western allies have nevertheless made it conditional on the prior conclusion of the conventional forces in Europe (CFE) negotiations in Vienna. The aim of those negotiations is to bring Nato and Warsaw Pact troop and offensive armaments levels down to equal ceilings. Once such an agreement has been reached, Nato has given its support to the opening of talks between the US and the Soviet Union on the reduction, even abolition, of short-range nuclear forces in Europe (SNF).

Nato considers, however, that it would be premature to commit itself finally to any new security structures at this early stage of the political and economic evolution in the Soviet Union and Eastern Europe. The whole problem has been complicated by the argument over German membership of Nato. Though Moscow, initially in favour of the neutralisation of a unified Germany, has finally accepted the Western argument that it would be dangerous to have a "loose cannon" in the centre of Europe, it is still not reconciled to a united Germany's membership of Nato.

All kinds of alternative solutions have been put forward by the Soviet Union, such as dual German membership of Nato and the Warsaw Pact, associate Nato membership, and most recently, a transitional period of several years after unification during which Nato and the Warsaw Pact would agree not to "extend" their territories. But the Western allies, including the Federal Republic of Germany, have insisted that Germany must be fully sovereign once unification has taken place at the end of this year and should have the right to belong to whatever international alliances it wishes.

Nato is fully aware that the Soviet Union must be given tangible security assurances to compensate it for the demise of the Warsaw Pact and the loss of its dominant position in Eastern Europe. It is clear, however, that these assurances will stop short of allowing the Atlantic Alliance to wither away. In the medium term, Nato and even the truncated Warsaw Pact, will not be completely dissolved. It is much more likely that they will continue to exist, with their political roles enhanced and in close association with a strengthened CSCE, without however being entirely replaced by a new European security system.

Robert Mauthner

THE LABOUR MARKET

Challenge of encouraging mobility of skilled workers

A EUROPEAN labour market is a distant prospect. While employers regard labour costs and skills as an important part of an investment decision, and some workers are willing to move between regions and countries to seek the best work, the European Community is far from a clearing market matching skills demand to supply.

The number of nationals working in another European country is fewer than the 15m people who are counted as unemployed within the EC. France is host to the highest number of resident workers of other EC nationalities – there were about 600,000 there in 1988.

Vasso Papandreou, European Commissioner for Social Affairs

Another category of transnational worker is frontier employees, who live in one EC state and work in another. Some 35,000 French workers commute daily or weekly to work in West Germany. Both these groups mostly comprise relatively highly skilled workers seeking work and better pay abroad.

The largest movements of labour within Europe have involved the low-paid and low-skilled moving out of peripheral regions such as southern Italy to find work – a phenomenon of the 1960s and early 1970s. The closest modern equivalent is the movement within construction and hotel and catering.

If the Single European Market included a more fluid labour market at higher skill levels, that would be one of its most radical achievements. But the European Commission's efforts to construct a social programme matching the economic one could have contradictory effects on mobility.

One set of proposals from the Commission is clearly aimed at improving workers' geographical mobility. These include the directives intended to allow the transfer across borders of financial entitlements tied to pay such as pensions and social security benefits.

Another set of harmonisation proposals covers the framework of vocational qualifications in Europe, which often prevent workers having a real chance of getting higher grade jobs. The British National Council for Vocational Qualifications has undertaken to try to forge some harmony.

Other proposals from the Commission that come under its social action programme – the means of trying to put the Social Charter of workers' rights into practice. These are based on constructing minimum standards and entitlements in fields such as working hours and work contracts.

One of the premises behind the social action programme is that employers should be prevented from a certain type of mobility – what the Commission calls "social dumping." This refers to companies seeking out low cost labour regions such as Spain and Portugal for capital investment.

The Commission has just published its first set of directives under the action programme – covering part-time and temporary workers. It has made clear that it wants to prevent a labour market driving down employment conditions to match the lowest standards within EC countries.

If there is some ambivalence about the political attitudes to a European labour market, it perhaps reflects an ambivalence about the need for such a market. One argument for striving towards real mobility of workers is that it will allow ordinary people to see a gain in the 1992 programme.

Ms Vasso Papandreou, the Social Affairs Commissioner, argues that there is a danger that the single market process will be undermined if ordinary people – and their representatives in the European Parliament – see the programme as simply benefiting companies.

But there is also an economic argument that labour mobility and a market with fewer obstructions to the clearing of unemployment is sorely needed. This stems from sluggishness in labour markets within EC countries and their failure to solve persistent unemployment in the past two decades.

The European Round Table of Industrialists – a working group of employers – argued in a recent study of European employment polices that unemployment at the end of the 1980s was an EC rather than a European problem. It was also one likely to continue well into the 1990s.

One of the distinctive features of EC unemployment is that many countries are now combining high long-term unemployment, and a growing proportion of economically inactive people such as the early retired, with severe shortages of skilled labour and sometimes regional labour shortages.

About a half of the EC unemployed – or 5 per cent of the total labour force – have been out of work for more than a year. The Round Table estimates that 3m are unemployed due to a lack of geographical mobility, and 1.5m because they are not mobile enough within professions and industries.

These statistics point to a formidable problem of flexibility within the EC. Many workers are not being matched with available jobs because they are in the wrong place or they have the wrong skills. At the same time, employers are crying out for skilled workers.

This would be exacerbated by 1992 if the programme's employment effects follow the "J curve" pattern predicted in the Cecchini report – an initial loss of about 250,000 jobs followed by longer-term gains. Many of those job losses could be among more vulnerable older workers in manufacturing.

The effort to re-integrate the EC's displaced and inactive workers through education and training programmes could also be disrupted by labour competition from its eastern borders. Many East European workers will not only be willing to move, but already have the skills which are in demand.

The separately imbalanced labour markets of the EC might benefit from a shock adjustment through the single market. But it is clear that the creation of anything approaching a European labour market will be a longer process even than knocking down tariff and trade barriers.

The policy challenge facing EC governments and the European Commission is to encourage the mobility of skills both across national borders and within companies. A return to the mass migration of the low skilled seen in the 1960s will not solve Europe's formidable labour market problems.

John Gapper

FINANCIAL TIMES SURVEY

INTERNATIONAL CAPITAL MARKETS

SECTION IV

Monday July 2 1990

The excesses of the 1980s pervade the new decade. Yet in spite of the reaction now under way, there can be no reversion to some previous state, says **Stephen Fidler**. There are exciting opportunities, though the role of the world's regulators is likely to increase.

A franchise under stress

IT WAS quite a party in the world's capital markets but it went on too long. There seemed no end to it: company takeovers of unprecedented size financed by debt, stock and land-price booms financed by credit. Clearing up the mess will preoccupy many in the coming decade.

Quite why companies and individuals in the industrialised countries built up their debt to such high levels is not completely clear. Perhaps the effects of a long period of uninterrupted economic growth distorted expectations about returns on investment.

But their ability to do so was facilitated by the increasing international mobility of capital, following the abolition of exchange controls in one country after another. This in turn brought about a kind of competitive deregulation of financial markets and an opening up to foreign competition.

Huge investments by banks and securities houses attempting to establish a "global" presence was one consequence. This increased competition and capacity at a time when another development – the advance of technology and computing – was reducing the "specialness" of banks and, to a lesser extent, securities houses.

As the president of the Federal Reserve Bank of New York, Mr Gerald Corrigan, has said: "The historic value of the banking franchise is under great pressure. The institutionalisation of savings, the securitisation of financial assets and liabilities, the easy access to information about the creditworthiness of individual borrowers . . . are all symptomatic of a rapidly changing banking and financing environment, which has unquestionably undercut the once-considerable value of the banking franchise."

This is undoubtedly more true of the US than it is of Germany or Japan. It is also more worrying to banks than to securities firms; but – as Mr Corrigan points out – it is also a matter that should worry the securities houses: "We now have instances where firms with particularly strong credit ratings are able to place their own commercial paper directly with institutional and other investors, thereby by-passing not only the commercial banking system but also the investment banking industry."

Indeed, financial intermediaries as a whole did their image no favours in the 1980s. Insider trading scandals, market manipulation and high-pressure salesmanship, great companies being forced into "play", share trading strategies that were seen as causing market volatility, are just a few examples of the activities which have led many to distrust banks and securities houses.

US investment managers, such as Mr James Coxon, of Cigna Investments, presiding over $65bn of assets, say they have become disaffected with securities houses. Much of Wall Street pays lip service to serving its customers, but is in fact increasingly in competition with them. Their complaints are echoed, if in somewhat more muted tones, across the Atlantic.

Indeed, some houses seem to have decided that the only way to boost returns in an overcrowded market is through aggressive trading strategies. But it is risky and suggests that even Wall Street is running out of ideas. The New York Fed chief is worth quoting again:

"We have, in my view, excess capacity in large segments of banking and finance [in the US]. This same condition appears to exist internationally, at least in some segments of the wholesale markets. The symptoms of this condition abound in razor-thin spreads, pinched margins and, perhaps especially, in the troublesome manner in which we see vast amounts of very short-term churning and trading in so many segments of the financial markets."

According to the US Securities Industry Association, the return on equity in US securities firms dropped from 50 per cent in 1980 to an average of 7 per cent between 1987 and 1989. "Securities firms," it says in a review of the decade, "could have fared better by placing their capital in Treasury or corporate bonds which face minimal risk compared with the volatile and high risks of the securities industry."

This would, as Mr Corrigan points out, "clearly imply that we will have to go through a period of at least some consolidation in banking and finance." Few would disagree, but there would be less agreement on how that consolidation will come about in a period when, as the Bank for International Settlements has pointed out, there exists "greater fragility in the financial sector".

In its annual report, published last month, the Bank – the main international forum for central banks – points to the "increasing vulnerability of the financial sector to a slowdown in economic activity and to possible further rises in interest rates".

All these factors have prompted greater official scrutiny of the financial markets by regulators and bank supervisors – which has had a significant influence already on the behaviour of banks and securities firms (something which brings its own dangers).

Yet while there is undoubtedly a reaction now under way in the international capital markets to the excess of the 1980s, in no way can they revert to some previous state. Unglobalising the capital markets is not an option, and in a large and complicated world there are clearly opportunities.

The changes evident in the 1980s are not yet complete. In the next five years, the remaining barriers between banking and the securities business, in both the US and Japan, are likely to be lifted formally. In the US, interstate banking will become a reality.

The development of the derivatives markets should, if carefully managed, allow for a better distribution of risk in the financial system, though it brings its own dangers. The interest of regulators will continue to drive banks to attempt to move assets of their balance sheets, providing a motivation for the continued growth of the market in structured securities – securities fashioned out of repackaged financial assets. But as this market grows, so the rewards to intermediaries will decline.

The institutionalisation of savings seems unlikely to be reversed. Those markets catering to institutions rather than individuals – such as the US private placement market, which grew 10-fold to $200bn in the 1980s – thus are likely to gain further in importance, helped by new Securities and Exchange Commission rules.

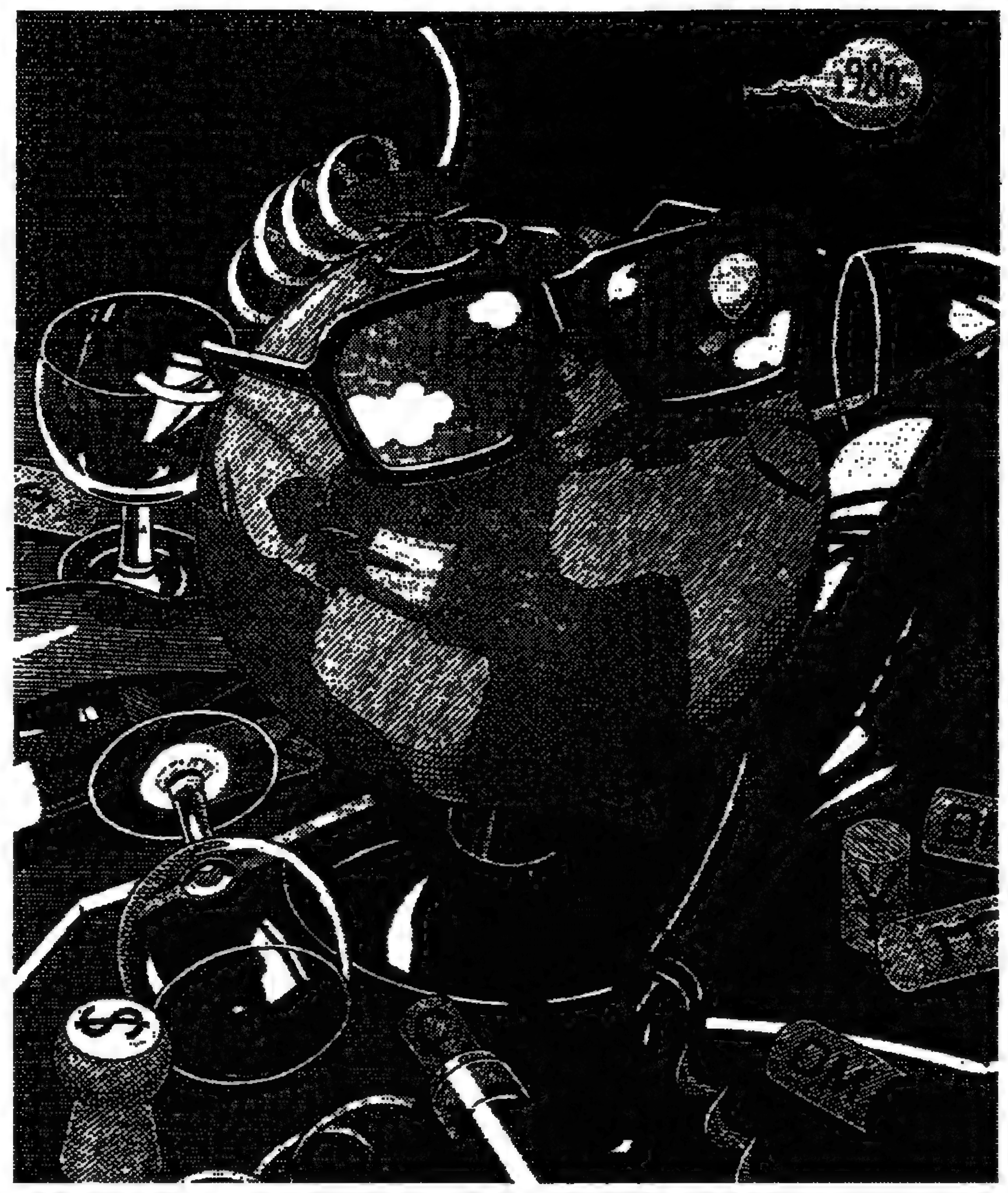
There will be interest, too, in new markets such as east Europe. Sensitivity to the risks of investment in these markets seems likely to rule out for now a significant commitment of capital, but banks and securities firms are likely to be most comfortable following the lead of the corporate customers. Interest more generally in the "emerging markets" of east Europe and the developing world seems likely to grow as international investors seek to diversify risk and increase their returns.

Japan's influence on the international markets has grown significantly in the 1980s. That growth seems unsustainable, but the Japanese are already hugely important. The Japanese banks' retreat from leveraged lending in the US and their subsequent extreme caution in the international lending market is already having a big international impact.

Profit margins for banks and securities houses in Japan seem likely to shrink, following their counterparts abroad. This trend will be intensified by the likely abolition of fixed commissions.

Another important trend will change the look of many of the world's capital markets in coming years – the switch to screen-based trading is likely, in time, to render obsolete many of the futures and stock market trading floors. They will also liberate these markets geographically, but subject them to vertical competition with information vendors such as Reuters and even the powerful world telecommunications concerns.

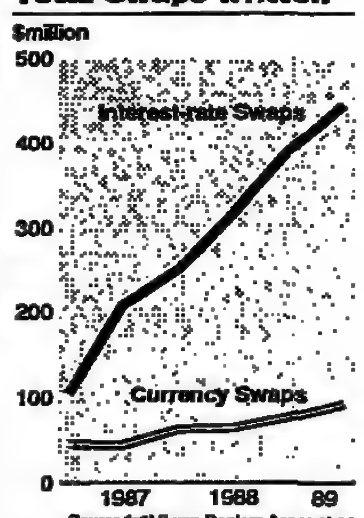
This will provide a continued and an ever-more complex challenge for the world's securities and banking regulators. Their co-operation will have to intensify, both across borders and within countries. As they move into a decade where the fragility of the financial system is already an issue of some concern, their job will be so much tougher.



IN THIS SURVEY

Jackets may go out of fashion

Total Swaps written



Source: Int'l Swap Dealers Association

Illustration: Robin MacFarlan

Martin Dickson on US life after junk bonds

Cash is king but equity has a substantial role

WITH BANKRUPTCY taking an ever greater toll of US companies which leveraged themselves up to the hilt in the heady days of the takeover boom, it is hardly surprising that today it is much more difficult raising funds for an American bid.

Difficult, but not impossible – provided you are a well-respected management running a well-positioned company and have good strategic arguments to present to potential investors or lenders.

What is virtually impossible is raising funds for a bid if you are a "financier" or an "entrepreneur" – the polite way of describing the quick-fire takeover artists of the 1980s who were not so much interested in what a company did as how profitably they could dismember its assets.

The mature 1980s form of the financially-engineered takeover involved a bidder getting the backing of an investment bank which would agree to provide a "bridging loan" of funds sufficient for him to launch rapidly an all-cash tender offer for the target. That loan would later be transformed into junk, or high-yield, non-investment grade bonds, which the investment banks would distribute to a wide range of investors.

But since the collapse of the junk market last autumn, leaving institutional investors with paper worth billions of dollars, trading way below its par value, the high-yield market has not been the place to look for bid finance.

So what does the acquisitive company do? That depends on both the nature of the bidder and its target. In some cases, equity, i.e., ordinary shares, can play a role. Throughout the 1980s, the issuing of shares by a predator company played virtually no role in US bid financing – unlike the UK, where it was the predominant form of payment until the 1987 stockmarket crash.

In the US, with its large (though nowadays much chastened) group of Wall Street arbitrageurs, who invest in bid stocks with the hope of a quick return, there is not much appeal in getting one company's shares in return for another's. Cash has always been king.

The buy-out that employees at UAL are trying to organise by early August will be an interesting test of market receptiveness

That said, equity can be deployed in some situations, notably an agreed merger between two businesses, where the chance of a rival offer is remote, or impossible, and there is clear sense in the companies combining their strengths. This was the case with the recent insurance broking merger proposal between Britain's Willis Faber and New York-based Corroon & Black, where Willis Faber's bid was entirely with its own shares.

And while paper bids are the exception for quoted US companies, equity can be used – at least, in part payment – in offers for private companies. This, for example occured in the recent takeover by ConAgra of fellow food group Beatrice, which was sold for $1.3bn by Kohlberg Kravis Roberts, the buy-out specialists.

ConAgra's payment was made up of $626m in cash, $355m in ConAgra shares and $355m in two series of preferred stock. This package worked because ConAgra was unwilling to pay all cash and KKR, which has long sought a buyer for Beatrice, was prepared to take a large slice of ConAgra shares.

Still, investment bankers suggest that this construction may be the forerunner of similar deals involving the sale of privately owned businesses. "But the seller has to be comfortable with the paper he is getting," says one banker. "This will give companies with well-perceived managements and good track-records a competitive advantage when trying to strike deals."

However, in bids for publicly-quoted companies the consideration usually has to be in cash, and that means various combinations and layers of debt, provided mainly by the commercial banks, although institutional investors are still willing to assume large amounts of subordinated debt for the right borrower.

One of the larger bids of this year, that by Georgia Pacific for fellow papermaker Great Northern Nekoosa, involved Bank of America and a syndicate of domestic and international banks putting together a $4.5bn facility, allowing the bidder to make the offer.

Georgia Pacific has recently refinanced this through a $1bn asset securitisation, a public offering of $600m of credit-sensitive notes and debentures, and a $4bn credit and revolving loan facility led by Bank of America.

Nor are management buy-outs impossible if the size of the company is not too great and the consideration does not involve junk bonds. For example, Forstmann Little, the buy-out firm which has fought a long and lonely battle against junk bonds, put together an $825m buy-out of Gulfstream Aerospace from Chrysler earlier this year.

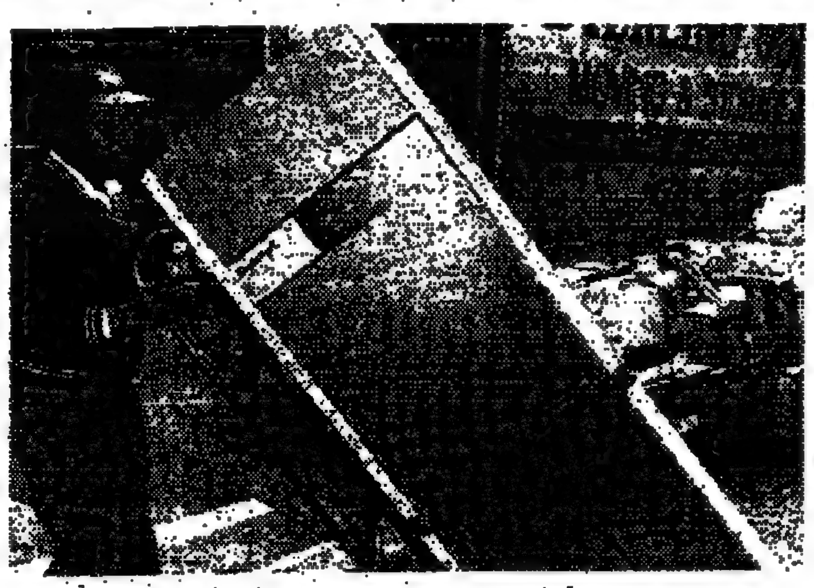
Some $400m of that came from Forstmann Little – $300m of subordinated debt with a relatively low rate of interest, mostly from large pension funds, and $100m in equity from the managers of the company, from Forstmann and the debt investors, who thus get a slice of the potential equity return. The banks provided the remainder of the funds.

The key to all this remains the quality of the company to which the banks and institutions are lending, and that increases the importance of their in-house credit analysis – much of which was remarkably lax in the days of the junk boom – and of the credit-rating agencies.

An interesting test of the market's receptiveness will be the buy-out that employees at UAL, the parent company of United Airlines, are trying to organise by early August. A management-led buy-out attempt at UAL collapsed last year, partly because the price was pitched far too high, partly because of the tight margins on the loans, and partly because of the unusual method of loan syndication used: banks were told they would have to syndicate their exposure on their own, which led to a confusing free-for-all. This time, a more ordered syndication seems more likely.

The banks, which have suffered a loss of fee income from the drying up of the buy-out pool, would be keen to see a UAL deal breath some new life into the market – provided the terms are right and the risks not too scary. But while the buy-out management team exudes confidence, the company they are asking investors to back will be highly leveraged and in a highly cyclical, capital-intensive business.

Japanese banks, which killed off last year's bid, are likely to be wary of committing large amounts of money to a new bid, particularly one where unions will end up having a substantial say in the running of the business. The employees have a great deal of wooing to do.



WORKMEN remove stock-quotation equipment from the offices of the junk-bond giant Drexel Burnham Lambert, in lower Manhattan, on February 14 this year.

□

The firm's collapse has added urgency to talks between regulators, who agree that the risks inherent in the global securities industry demand action –

See page 4 of this survey

Asset securitisation in Europe has followed the US pattern

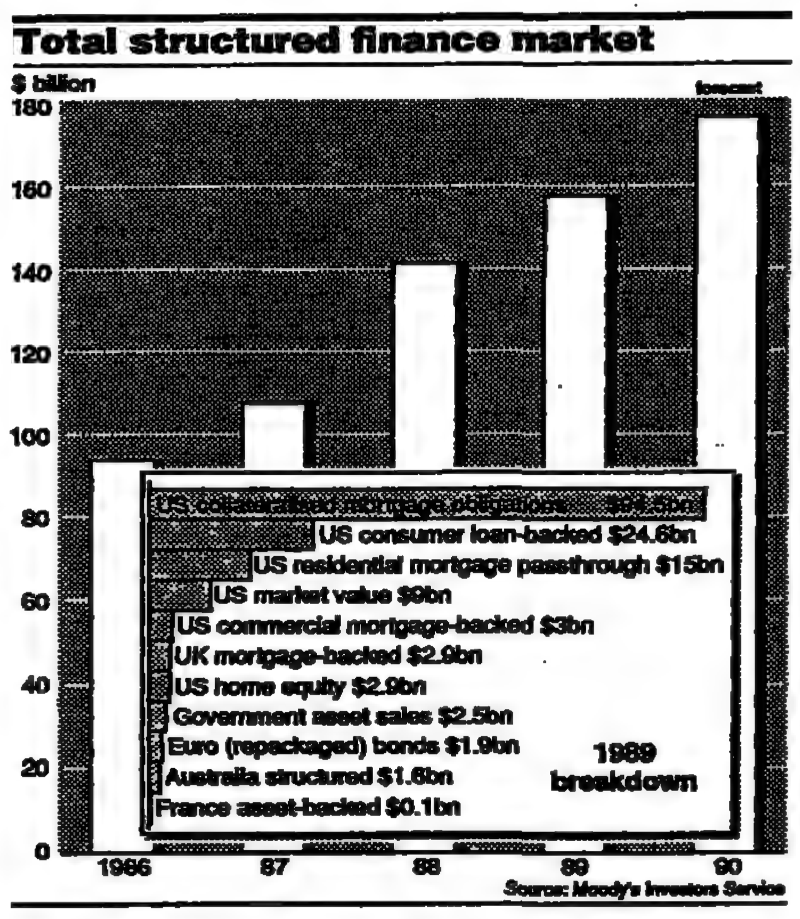
Pointers to expansion

ASSET-BACKED deals have been relatively slow to take off in much of western Europe. The lack of a clear regulatory framework, coupled with suspicion among investors, were hurdles which have only recently been removed.

Only in the last few weeks has there been evidence that the market can sustain regular issuance involving a range of different secured assets at a variety of maturities. Even now, however, putting deals together is a daunting task and many forecasters are re-writing their predictions of exponential growth in the sector.

Many European houses see the pressure for the growth of asset securitisation as coming mainly from US specialists, rather than end investors. The rush of US financial-guarantee insurance specialists into London in recent months is a sure sign that they feel the market is due to expand.

Financial Security Assurance has been in London for around 18 months, but was joined in March by Capital Markets Assurance Corporation (CapMAC) and Financial Guaranty Insurance. All three specialise in providing credit enhancement to asset-backed deals to ensure the paper carries a triple-A rating.



Credit judgments are the key to the asset-backed market. In a report last year, Moody's Investor Service, the international rating agency, predicted that the first wave of structured deals would carry top credit ratings and that has largely been the case.

For example, one of the latest large asset-backed deals to emerge is the $500m five-year, fixed-rate wholesale auto receivable-backed certificates, launched by Swiss Bank Corporation through a special-purpose vehicle known as DEALRs Wholesale Trust.

The key to this deal is that the loans, owned by Chrysler Corporation which was the subject of an embarrassing credit downgrade just after news of the deal became public, are not typical retail auto loans.

Rather, they are loans to Chrysler's dealers, a group which has a minute historic default rate compared with typical consumer loans. This meant a relatively straightforward credit enhancement package, including a Letter of Credit from SBC, could ensure a triple-A rating.

One feature of this year's rush of deals has been the care with which they are being marketed to underwriters and syndicators alike. When Salomon Brothers brought its credit card-backed deal for Citicorp, it preceded the launch with an extensive education programme in an attempt to ensure maximum understanding of the structure and the risks. SBC's Chrysler deal was the subject of a similar roadshow.

By contrast, Goldman Sachs ran into sharp criticism when it launched an unusual fixed-rate packaged deal for ESOP Trust, where the collateral consisted of employee stock ownership plans owned by Exxon Corporation; it gave underwriters the same notice that applied to a normal Eurobond issue, a deadline which officials at rival houses said was insufficient to judge the structure and give investors an accurate evaluation.

The general concern to market deals carefully reflects the continued investor reticence when faced with bonds carrying complicated structures and terms. Thus, while many syndicate officials are privately pinning their hopes on the asset-backed sector as the long-term saviour of the Eurobond market, they are aware of the medium-term difficulties they face.

This lends piquancy to the arguments over whether a simple senior-subordinated structure is more appropriate in Europe than third-party credit insurance. Advocates of each method argue that it is easier for investors to understand.

For the specialist insurers the danger is clear. If they are involved in too many deals, they could over-expose themselves in the market, frightening investors away from paper carrying their guarantee.

There is also the danger that they might guarantee an issue which fails to light the touchpaper of investor interest, so that their name is associated with poorly-performing securities.

This problem hit Financial Security Assurance late last year, when it guaranteed the main tranche of an innovative repackaging of US leveraged buy-out loans. The $500m eight-year floating-rate deal, underwritten and syndicated by BNP Capital Markets, was a classic example of the asset-backed issue.

It was secured by a pool of loans provided by a group of banks, anxious to remove the loans from their balance sheets and free up capital for other purposes. After an apparently steady launch, the deal ran into significant resistance from investors and began to trade badly. FSA found its name in the limelight.

FSA is now operating a temporary moratorium on insuring further floating-rate issues, saying that it does not want to over-supply the market. It is concentrating on fixed-rate deals.

Asset securitisation in Europe has followed the pattern of the US market, growing out of the packaging of residential mortgages and gradually becoming more sophisticated. In individual markets, this has meant sometimes rapid development towards auto loans and then more complex deals.

In France, the third deal under the so-called *titrisation laws allowing securitisation*, was launched early in June by a joint venture between Société Générale and Merrill Lynch.

The FFr900m ($160m) in floating-rate bonds was backed by consumer loans belonging to Cetelem, a subsidiary of Compagnie Bancaire. A subordinated tranche of FFr100m protected the credit rating on the senior tranche.

In Italy, issuance has been hindered by what bankers describe as a mass of complex and archaic laws which require each deal to have a unique structure. Citicorp managed to launch a successful issue via its Chariots vehicle, but other would-be issuers have been less visible.

One sector still regarded as promising is consumer auto loans, which in Italy have relatively long average lives because of the strict penalties borrowers face for prepayments.

Andrew Freeman

The banks' caution in corporate lending is creating problems

Tougher times expose the last decade's shortcomings

IN INTERNATIONAL banking, a year can make a world of difference.

Twelve months ago, new deals for corporate customers were flowing in the syndicated-lending business. Now, the deal flow has dried up, and lending to anything but the best corporate borrowers is regarded with extreme caution.

Some lending banks are becoming so cautious that, in the extreme, their actions are precipitating difficulties for weaker companies.

The parallels with the "contagion effect" that precipitated a debt crisis in countries with little in common with Mexico after 1982 are obvious. In both cases, banks failed to distinguish appropriately between different quality borrowers in the good years. In the bad years, their actions were hardly more subtle. Differentiation emerged between the best and the rest. But for the rest, that differentiation was manifested in a severely reduced access to credit, rather than through a higher price.

Tougher times have laid bare some of the shortcomings of international banking practice of the 1980s, which have spread mainly from the US. This practice was based on a banking philosophy that put the transaction first. Arranging the deal was what produced the fees. Even lending money – except where it provided the catalyst to get the deal done – became unfashionable.

Many banks specialised in arranging deals. Although they lent money, they often quickly passed on that exposure to the willing hordes of smaller banks looking to book bank assets. Leading banks would often skim off or part of the interest margin before passing on the exposure.

It was a process in which the corporate borrowers themselves played a big part, and for understandable reasons. How could they justify using their traditional banks when they were being offered something far cheaper outside? Unsurprisingly, all this ate away at the historical relationships between companies and their banks.

These historical relationships were further undermined, particularly in the UK, by the offers to consolidate all bank credit lines into one, often aggressively-priced, banking facility. This would provide a stand-by credit, for which banks would be paid a facility fee. It was often accompanied by a tender panel of banks, which were not committed to lend but would bid for the company's paper or to make advances. This, at least

Confidence in corporate lending began to be shaken by the interest being taken by banking regulators in the US, UK and Japan on leveraged lending. It had been clear that, while the returns often did not reflect it, the level of debt created was growing

in the early stages, usually provided very competitive finance, which meant the underwritten bank facilities were hardly used.

Originally, such funding arrangements – known as multiple option facilities, or MOFs – were aimed only at the highest quality corporate borrowers. But in the scramble for business, banks pushed further down the credit ladder to find new candidates.

There was a flood of such facilities in 1986 and 1987, particularly in the UK, when pricing was at the bottom of the cycle. Facility fees dropped in some cases below 5 basis points – meaning that to keep a £100m underwriting commitment in place for a year would cost a company £50,000. If the facilities were drawn, all-in pricing over interbank rates would often come to less than 20 basis points. The Bank of England warned that companies would probably most need to draw on these underwritten facilities at the time when the aggressive pricing was most out of line with prevailing market conditions.

The aggressive pricing of such MOFs was justified internally by banks, because they would supposedly be first in line for more profitable banking and finance business from the customer. Given the frequency with which this claim was made by bankers, there was presumably some truth in it.

Confidence in corporate lending began to be shaken by the interest being taken by banking regulators in the US, UK and Japan on leveraged lending. It had been clear that, while the returns often did not reflect it, the level of debt created in such transactions was growing.

This doubt grew with the failure of an important leveraged syndication of a proposed buy-out for UAL, and was cemented by the collapse this year of the junk-bond specialist, Drexel Burnham Lambert.

At the same time, difficulties being faced in the UK by a number of highly-priced leveraged buy-outs also surfaced. In the UK, and subsequently elsewhere, interest rates rose, not only increasing corporate interest burdens but hitting their businesses.

All this made banks more cautious. But on top of that, Japanese banks – whose participation had essentially underpinned the syndicated loans market – began to get nervous. The nervousness was exaggerated by the drop in Japanese share prices and the prospective implementation of tougher capital requirements.

So what had happened? Companies facing financial difficulties found they had been relying on uncommitted creditors, whose support dried up. At this point, the underwritten portion of the MOF was meant to provide the credit. But – because the margins were so tight, compared with the perceived risk – some banks were looking for ways to get out of the commitment. Technical breaches of covenants provided just this escape.

Other companies were left with banks with which they had a "transactional" relationship. Many banks in the original syndicate had passed on their exposure to others. In both cases, because of the changes in the loans market over the previous five years, the interests of bank and their corporate customers diverged – to the detriment of both borrower and lender.

These problems will presumably now tend to push bank and customer closer together. Some bankers are already claiming the rebirth of "relationship banking" and pointing out that the corporate difficulties in the Anglo-Saxon countries are not replicated in those countries, such as Germany and Japan, where there are strong ties between bank and customer.

Others, perhaps wisely, remain sceptical. The fundamental overcapacity in this area of banking remains – and that is the ultimate cause of banks' inability to gain adequate compensation for the risks they take.

Stephen Fidler

International bonds

Weakness of Tokyo equities punishes Eurobond market

Equity warrant prices have recovered as the Nikkei has clawed back around one third of its March losses, and there is talk of stronger investor demand. . . [The Tokyo markets are covered on page 5 of this survey]

THE EUROBOND market has defied predictions of its demise on numerous occasions. Despite the dearth of new-issue opportunities during much of this year, many players believe the primary threat to its future comes not from poor short-term economic fundamentals, but from an innovation of its own making – the global and international bond structure.

The greatest blow to the market this year was the unexpected weakness of the Tokyo equity market in the first quarter. The speed with which the equity-related business, on which the Eurobond market depended so heavily in 1989, was withdrawn took securities houses by surprise. Some $63bn of deals was launched last year, but this year's total will be lucky to reach one third of that.

Since March, when the Nikkei stock index plummeted by 28 per cent on its year-end level, there has been no issuance of Japanese bonds with equity warrants. Similarly, in the Swiss foreign bond market, there have been no convertible issues save a solitary recent deal designed to test sentiment.

Equity warrant prices have recovered as the Nikkei has clawed back around one third of its March losses, and there is talk that investor demand is now strong enough to support new issues; but the sector is expected to make only a modest return. The big four Japanese houses in London are currently negotiating for a re-opening of the market in early July.

Profitability has been the main casualty. Many of the London-based houses depended on the equity-related business for the lion's share of their profits, because straight debt business was extremely competitive. Now, they have to concentrate on the small profits from debt deals, but all the time their fixed costs have squeezed their return on capital.

The market's relentless drive for innovation and improvement has not made up the ground lost by the disappearance of the warrant business.

The World Bank's two $1.5bn deals have so far dominated the global structure launched by Morgan Stanley for New Zealand last year. The structure in turn has come to dominate the market for large, dollar-denominated deals.

The recent introduction of Rule 144a in the US, with the increased non-European placement it implies, means the traditional boundaries of jurisdiction and demand which defined the original growth of the Eurobond market are increasingly irrelevant.

Issues which look as if they are tailored for the US market are being launched in London, designed for international trading available for settlement in Euroclear and Cedel. These deals are not Eurobonds in the traditional sense. They are international securities, a portion of which will be in registered form to satisfy US requirements.

This development has left syndicate managers facing what they describe as a two-tier market. On the one hand, an institutional market served by the new structures. On the other, traditional bearer Eurobonds aimed at retail markets, regarded as almost niche business where specialist houses concentrate research and placement on specific currencies and instruments.

Ironically, this year has been significantly more profitable for the niche players. A widespread lack of arbitrage opportunities has limited swap-driven new issues, so most borrowers have called for fixed-rate funds. Small houses can generally sell bonds at issue price, so they have an advantage bidding on smaller, straight bond issues – they find it harder to compete for swapped mandates.

Large redemption flows in currencies like Australian dollars was expected, to underpin retail demand in the second quarter this year, but the continued inverse yield curves in many of the markets meant that a large proportion of funds has been kept in the money markets earning high rates of interest. Retail placement has become hard, but rewarding work.

By contrast, a small number of large securities houses have declared their participation in the dollar market, playing to their strengths in international distribution. They claim they are delighted no longer to be invited to participate in retail-targeted deals: "We can concentrate on what we're good at," was how one syndicate manager at a US house put it.

The business, however, has been patchy, with only the occasional issue to test the new structures, some of which have already been found wanting.

For example, the fixed-price reoffer structure which accompanied the original New Zealand deal was introduced as a competitive equivalent to underwriting techniques in the US. European securities houses are now grumbling that the method has resulted in the big deals becoming unprofitable. Intense competition means that true consensus pricing among the syndicate is rare.

They argue that bought deals are being launched as global, fixed-price reoffers, with the fees discounted in the bidding by the lead manager. The first reoffers carried what most houses said were sensible fees, rewarding them for their underwriting and distribution skills. Almost immediately, however, there were signs that some players were prepared to work for less, and within a matter of months fees had been shrunk almost to nothing.

The general lack of money in the Eurobond market has had a visible effect on the Association of International Bond Dealers, the trade association for the secondary market.

Many of its members had a clear message for the AIBD when its annual conference convened recently in Amsterdam – they are not interested in developing new services that will cost money, even if those services carry implied future savings.

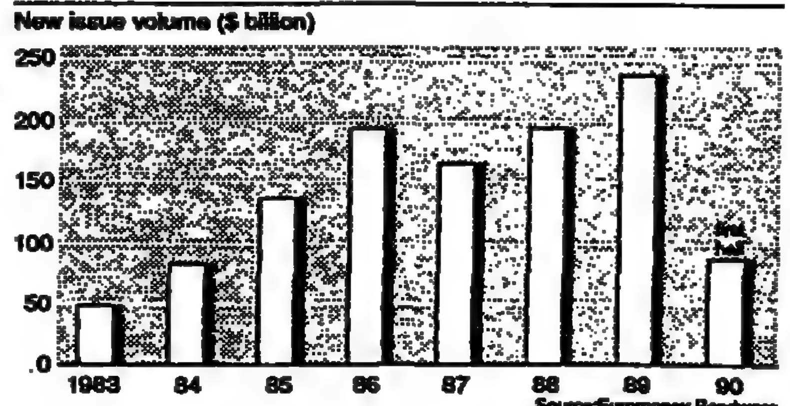
For example, a project to establish a joint communications network with the two international clearers, Euroclear and Cedel, was the subject of an extensive presentation – only to have such an uninterested reception that the AIBD board felt it had no clear mandate to pursue the matter. The network will now be the subject of a membership survey in an unprecedented act of consultation.

The danger for the AIBD is that the members will reject the network. A system established on sensible commercial lines, leaving the integrity of price and trade data intact, would help entrench the association by making it an integral part of a what would become an indispensable communications network.

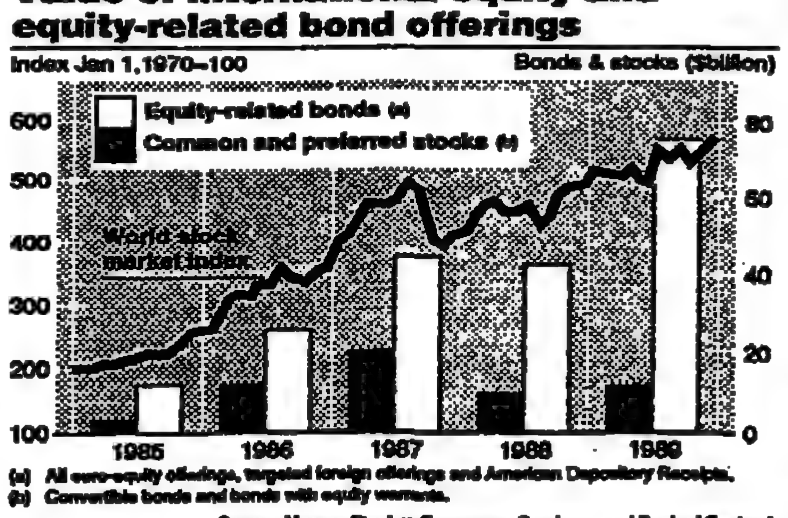
Andrew Freeman

Eurobonds

New issue volume ($ billion)



Value of international equity and equity-related bond offerings



(a) All euro-equity offerings, targeted foreign offerings and American Depositary Receipts.
(b) Convertible bonds and bonds with equity warrants.
Source: Morgan Stanley, Euromoney Bondware and Bank of England

The Ecu bond market is growing fast

Investors attracted by firmer currency

THE EUROPEAN Currency Unit bond market has swung into favour. Boosted by economic and political trends, it has shed its status as a niche sector for retail investors.

Volume of new Ecu Eurobonds so far this year is not far short of $10bn equivalent, and a series of liquid benchmark issues has heralded the advent of major institutional investors.

Large multi-currency bond funds, particularly in the UK, have started to invest substantial sums, drawn by the Ecu's potential role as the currency of European Monetary Union. Previously, a lack of liquidity and hedging inefficiencies proved a sufficient deterrent, but institutions "can now take advantage of the high yield argument," says Bob Tyley, head of bond research at Paribas Capital Markets.

For Japanese investors, "there has been an upturn of interest in European bonds generally," according to Alex Monnas, director in charge of trading at Daiwa Europe. The development of benchmark issues in the sector is encouraging them to "move towards having core European bond holdings in Ecu."

The market's development has been accelerated by practical backing from several European governments. Domestic government bonds have now been issued by Italy, France, Spain and Ireland, and the UK is widely tipped to follow their lead.

"I think the [UK] authorities are aware of the substantial grip that Paris has on the market. If they were in a position to issue, they would like to bring some Ecu debt," reckons Mr Monnas, of Daiwa.

Even without UK participation, the various government bond issues currently available are starting to form a viable government bond yield curve. Analysts also observe various "synthetic" yield models, calculated from the component bond markets of the Ecu basket.

The most liquid Ecu bond issues — particularly the seven- and 10-year French government *Obligations Assimilables du Trésor* (OATs) — can now be bought and sold in order to hedge trading positions, in the same way that traders use the US Treasury market to hedge Eurodollar bonds. Some Ecu bond traders have recourse to the German bond market, a more liquid, but also a more imperfect hedge.

But according to Stephen Lewis, a consultant at UBS Phillips & Drew, "there is still a lack of effective benchmarks. [The Ecu OAT market] is not a particularly large market compared with benchmarks for other markets."

The development of derivative products will boost liquidity, as well as offering more sophisticated hedging techniques. On October 18, the Matif, the Paris futures exchange, is launching a futures contract deliverable into eligible six- to 10-year Ecu OATs.

The London International Financial Futures Exchange (Liffe) has somewhat vaguer plans to launch a contract. "It is consistent with our policy to develop an Ecu bond contract," says Michael Jenkins, Liffe's chief executive. The problem is to ensure that there is sufficient deliverable supply to secure reasonable liquidity. Mr Jenkins adds that the end of the year is a target date. Liffe already has a three-month Ecu Libor contract.

As well as governments, the major supranational agencies, most notably the European Investment Bank, have also played a key role in the market's progress. The EIB now boasts the largest outstanding Eurobond in the sector, an Ecu1.125bn ($922m) seven-year issue. The need to finance eastern Europe's regeneration will continue to bolster agency funding levels in the sector for some time. For example, the newly-created European Bank for Reconstruction and Development, set up to provide loans to Eastern Europe, will fund a proportion of its lending in Ecu.

As a proportion of new issues, sovereign and supranational issuance so far this year is running at around 50 per cent — up from just over a quarter in 1989, according to data from Euromoney.

The corporate bond market remains almost exclusively swap-driven, mainly on the back of the Italian government's bond issues. Italy's *Certificati del Tesoro in Ecu* (CTEs) are subject to a 12½ per cent withholding tax. This means that they are issued at a gross yield above Ecu market yields. Since many non-Italian investors can reclaim most of the tax, this provides the basis for bank investors in CTEs to write interest-rate swaps into floating-rate Ecu at attractive rates for borrowers. (Typically, a further leg of the swap converts the funds into floating-rate dollars).

Because most companies do not have a requirement for Ecu, they might well desert the market if attractive swap opportunities were to evaporate, unless a deeper swap market develops. (There has been some speculation that the Italians may abolish the withholding tax.)

For corporate access to the market to develop, the Ecu must become more widely used as a commercial currency. Currently, use of the Ecu by companies remains minimal. According to the Association for Monetary Union of Europe, the proportion of companies invoicing in Ecu is about 1 per cent. However, companies such as Saint Gobain, of France, and Fiat, of Italy, have started to use the Ecu for purposes such as trading between European affiliates.

The currency itself is becoming increasingly firm, which may encourage its use by companies that have affiliates around Europe. The basket structure provides a natural hedge against currency fluctuations, and may provide some protection against sudden shifts, such as those caused by Germany's reunification.

In addition, the closer pegging of the Belgian franc to the Deutsche Mark will take the hard D-Mark bloc component of the Ecu to just under 50 per cent.

Sterling entry into the Exchange Rate Mechanism of the European Monetary System would further reduce volatility. Yvona Fierlinger, an analyst at Deutsche Bank Capital Markets, says that sterling, with a 13 per cent nominal weighting in the Ecu, is the currency that German investors are worried about. "They are afraid that if they buy Ecu bonds, sterling fluctuations will upset their currency calculations," she says.

The effect would also be to reduce theoretical yields, according to UBS analysis. "If sterling were to join the ERM, sterling interest rates would be seen as less volatile," says Stephen Lewis, of UBS Phillips & Drew. He says the resulting disappearance of the current risk premium would benefit current bond holders.

Tracy Corrigan

The Frankfurt stock exchange has 118 foreign companies among the 189 on its unofficial third-tier market

Alan Harper

European stock exchanges are in a crowded market, where . . .

Rivals may yet collaborate

GLOBAL WARFARE is breaking out among stock exchanges. Many of these previously catatonic institutions have discovered a new commercial verve as their traditional domestic roles have come under threat.

A big decision now faces them: should they gang up in larger groups, to defend their territory; or should they go it alone in the increasingly crowded marketplace for international equities?

Changes are being forced by: companies in search of foreign investors; investors in search of foreign companies; and broker-dealers in search of the best way to interpose themselves between the two.

Not all stockmarkets will prosper. The winners will be the exchanges that carry the keenest stock prices, offer the lowest execution costs and have the most efficient settlement arrangements.

The most obvious battleground is Europe. A fair proportion of European shares are already traded outside their home country. This is due partly to investor interest, sparked by the approaching single market in the EC, and partly to the antiquated systems of some national exchanges.

It also owes something to SEAQ International, the system created five years ago by London's International Stock Exchange (ISE) which gave investors somewhere to trade their foreign shares outside the home market.

Last year, London's trade in foreign shares was big enough to make SEAQI the third most active stockmarket in Europe, behind only the German and London domestic equity markets. In the first quarter of this year, trading on SEAQI surpassed the domestic version of SEAQ for the first time — although this is due in part to the depressed level of business in the London market.

SEAQI looks more like a regional trading system than a truly international one. Nearly two thirds of its business is in the shares of European companies. Most of the rest comes in Japanese shares, with US stocks making up only 4 per cent of the trading volume.

London's International Stock Exchange has two things going for it: its large domestic market and its dominance of cross-border deals

London's ISE has two things going for it: its large domestic market (twice the capitalisation of its nearest rival) and its dominance of cross-border deals.

Others are trying to catch up. For instance, turnover taxes are to be abolished in countries like Germany and Sweden, as part of the fight to win business back from London. Trading systems are being modernised across the continent, and short dealing days lengthened. Clearing and settlement (London's great weakness) is being improved.

These enhancements are important in winning business for an exchange. The Frankfurt stock exchange, for instance, has 118 foreign companies among the 189 on its unofficial third-tier market. These companies, many of them from Italy, have been attracted by the efficient two-day clearing and settlement process in Germany.

They realise that the more efficient the system for dealing in their shares, the better their chance of attracting international investor interest.

At the same time, rivals are emerging to take on the exchanges at international business. The most significant development came earlier this year with the launch by Credit Suisse First Boston of an arrangement for trading Nestlé shares through Reuters, with Euroclear clearing, settling and registering bargains. This prototype has not yet been extended to other equities. But the creation of this integrated international trading and settlement process is a clear sign of things to come.

Against this background, the chairmen of the national bourses, represented by the Federation of Stock Exchanges in the EC, meet this month to discuss a co-operative venture in cross-border trading.

The difficulty for the exchanges — and particularly for London — is that they do not appear to have made up their minds yet about whether they really want to co-operate. London already has a strong contender in SEAQI. Should it go it alone, or join with the other exchanges? And if the exchanges do join together, should they compete head-on with the quote vendors like Reuters, or seek to co-operate by using them as distributors for their prices?

The chairmen of the European national bourses will meet this month to discuss a co-operative venture in cross-border trading

The answer depends on what co-operation means. The initial signs, from London's point of view, have not been good. There has been more enthusiasm among European exchanges at large for a retail cross-border trading system than a wholesale one. That suits some markets, which have a greater reliance on private shareholders, more than it does London, which is tied to the wholesale end of the business.

Unless the ISE can raise some enthusiasm for its own proposal of a pan-European wholesale market, it is likely to go it alone.

Its position appears strong, although one thing could threaten this. The EC's planned Investment Services Directive could undermine SEAQI by forcing all dealing to be carried out through organised markets. No one at the EC has yet defined what an organised market is, but the mutterings suggest that there is a real danger that SEAQI will fall outside the definition when it comes.

Meanwhile, there have been stirrings of international interest from another quarter: the leading US stock exchanges. Domestic competition between the likes of the New York Stock Exchange, the American Stock Exchange and Nasdaq has forced a move towards after-hours dealing in an effort to catch international interest in US shares and derivatives.

Nasdaq, a screen-based system, moved first with its announcement of a prolonged dealing day, opening the market for European investors before the beginning of US trading. The New York and American exchanges, tied to their floor dealing arrangements, have had to tread more carefully in their plans for out-of-hours, screen-based dealing, but both came forward with plans last month.

The US and European exchanges will not find themselves in head-on competition — yet. The US markets are trying to capture international dealing in US shares, while the European markets are looking primarily at European stocks. Competition will come at the fringes, for instances in those US stocks carried on European trading systems. Since US shares account for only 4 per cent of turnover on SEAQI, there is little to be fought over at the moment.

Longer-term, though, the going is likely to get much more competitive, particularly if the European exchanges, either together or separately, fail to develop an effective pan-European market. Such a failure would leave the way open for others to take European prices to investors in Japan or New York. And there would be no shortage of contenders willing to fill this gap.

Richard Waters

European stock exchanges compared

	Market capitalisation (£m) Dec 1989 §	Turnover of domestic equities: 1989 (£m)*	Domestic companies listed: Dec 1989	Turnover of overseas equities: 1989 (£m)	Overseas companies listed: Dec 1989
United Kingdom	507,159	197,739	2,015	84,556	544
West Germany	227,939	217,252	628	11,070	535
France	226,671	68,732	462	2,921	223
Switzerland	106,723	n/a†	117	n/a†	229
Italy	105,622	26,711	211	0	0
Netherlands	95,886	29,587	251	649	229
Spain	76,267	21,632	368	0	0
Sweden	74,000	11,206	135	40	9

§ Capitalisation of listed domestic equities. * Sales only. † Turnover in domestic and overseas equities combined: £129,170m.

Source: International Stock Exchange, London

As take-off of an international equities market is delayed . . .

Turbulence keeps global issues on the ground

THE MARKET for international equities was heralded as a bold move towards the globalisation of share trading at its inception in the early 1980s. But new-issue volume has failed to meet some of the enthusiastic predictions with which the market was greeted.

In fact, equity syndicators are unconvinced of the market's global credentials, believing that, instead of one global market, there are a lot of domestic markets working together and becoming more international in their outlook. Truly global equity issues are few and far between, and the pricing and size of international issues are still controlled by conditions in the domestic market.

It has been the turbulence in world stockmarkets that has inhibited the growth of international equity issuance, since companies are wary of issuing new stock when their domestic share prices are rocky. After growing on the back of the bull market in the early 1980s, the international equity market was hit hard by the 1987 crash.

International investors were looking to diversify rapidly into a wide range of foreign stocks in the euphoria that dominated the markets in the run-up to October 1987. But as share prices plummeted, international holdings were shed as quickly as they were bought.

In the chastened climate that followed Black Monday, new issues of international equities dropped dramatically, from $8.8bn in the third quarter of 1987 to $1.3bn in the fourth, according to the Bank of England.

The crash heralded a difficult period for international equity offerings, and activity was depressed throughout the following year. The market did not begin to show signs of a pick-up until last year, when the primary market reached a level of $14.9bn — although this was still below the 1987 level.

A review in the Bank of England quarterly bulletin suggests that the crash did not reverse a long-term trend towards international portfolio diversification and increased issues of international equity. Indeed, US institutional investors are still keen on foreign stocks, as they look to diversify their holdings from a 4 to 5 per cent weighting in foreign equities — accounting for a value of some $75bn. Some estimates see US holdings of international equities growing to around $200bn in the next four years.

While this remains the case, companies are much more interested in making international equity placements when their own stockmarkets are buoyant. The fact that stockmarkets around the world rose for most of last year was a key reason for the improvement in the international equity market, the Bank of England points out. At the same time, the increase in the number of privatisations last year boosted international equity issuance.

A buoyant stockmarket has encouraged French companies to make international offerings

A buoyant stockmarket has encouraged French companies to make international offerings this year. An issue of equity in UAP, the French insurance company, at the beginning of the year, is likely to be followed with similar issues for banks and insurance companies; since it was prompted by a change in the law which allows the Government to reduce its stake in financial institutions in which it has a majority share.

However, the recovery in the new-issue market has been slowed by the volatility that has affected world stockmarkets — particularly Japan — in the first half of this year. Japanese investors were keen enough to buy anything European while their own market was healthy — manifested by their passion for single-country funds — but bailed out amid the uncertainty in Tokyo early this year.

The early part of this year has been characterised by a steady flow of medium-sized issues out of the US, where companies have been more leveraged through the 1980s and are more prepared to issue equity at prevailing prices that companies in other parts of the world may feel are too low.

In Europe, Scandinavian companies have been active in the market, in a bid to fuel their voracious appetites for company takeovers. The issue of 4m B shares by Atlas Copco, the Swedish heavy equipment maker, in late May continued the interest felt by Scandinavian companies in overseas share placements. Kvaerner, the Norwegian mechanical engineering firm, raised NKr1bn ($154m) earlier in the year and Huhtemaki, the Finnish confectionery and pharmaceuticals firm is considering an international offer series I free shares.

Atlas Copco, which raised £125m with its offering, placed 20-to-25 per cent of the shares in the US as the first placement of equity in the newly-liberalised professional market created by the Securities and Exchange Commission with its rule 144a amendments. The private placement rules make it much easier for medium-sized European companies to include the US as part of an international share offering since they will not have to adhere to the onerous SEC registration requirements.

A similar development took place in Japan, when Daiwa pioneered the concept of a public offering without a listing (Powl) in a bid to sell UK water shares in the country. Before Tokyo's recent bout of severe volatility, Japanese brokerage houses saw a lot of interest among small to medium-sized European companies — those that were not interested in the visibility of a Tokyo listing — in making a Powl.

So far, four Powl issues have been made: Coastal Corp, the US oil explorer, raised $86m in October last year, which was followed by the privatisation of the UK water companies which raised $380m. In December, Polygram, the record company, part-owned by Phillips of the Netherlands, placed stock worth Fl 189m ($100m), and Maxwell Communications raised £70m.

The difficulties for an issuer in taking one of these less visible placement routes is that the shares may flow back fairly swiftly to the home market. This would negate one of the prime aims of making an international offering, which is a bid to broaden a companies' investor base.

Flowback has always been a problem for companies considering an international equity placement, and it highlights the need to make adequate preparations for a share offering.

Without adequate supporting information to accompany a stock offering, companies face large quantities of stock returning fairly quickly to the home market. This has often been the case in UK Government privatisations, which have initially proved very popular among US investors. British Gas, for instance, monitored the performance of its shares quite closely in the US, and found that, within a year of the privatisation, over three-quarters of the 6 per cent of its shares sold in the US had been repatriated.

In today's chastened climate, the easiest shares to sell are those that have a "story" attached to them and are easily understood in the country where they are being placed. Companies planning an offering are advised to put a lot of effort into roadshows and marketing, in a bid to make themselves known abroad.

The European single market, in the run-up to 1992, and German unification are currently the strongest "stories" in the international market. Japanese and US investors are once more looking to Europe as stockmarket volatility calms down, leaving room for strong growth in overseas share placements in the second half of the year.

Deborah Hargreaves

Deborah Hargreaves examines the challenges that face futures exchanges . . . and the growing use of derivative instruments

Chicago giants fight to keep their share

THE TIGHTLY-pressed scrum of gesticulating traders in bright jackets, which is seen as *the hallmark of futures trading*, could be a sight of the past, as screen trading makes its much-heralded way into the world's frenetic futures pits.

In the decade ahead, the futures industry could face the greatest period of change in its short and turbulent history, as it confronts the metamorphosis of its business into a global network dominated by 24-hour trading.

The growth of derivatives exchanges around the world has put pressure on the industry's leaders in Chicago to diversify and extend their trading reach. The exchanges have turned to screen trading as a way of stopping the erosion of their world futures business.

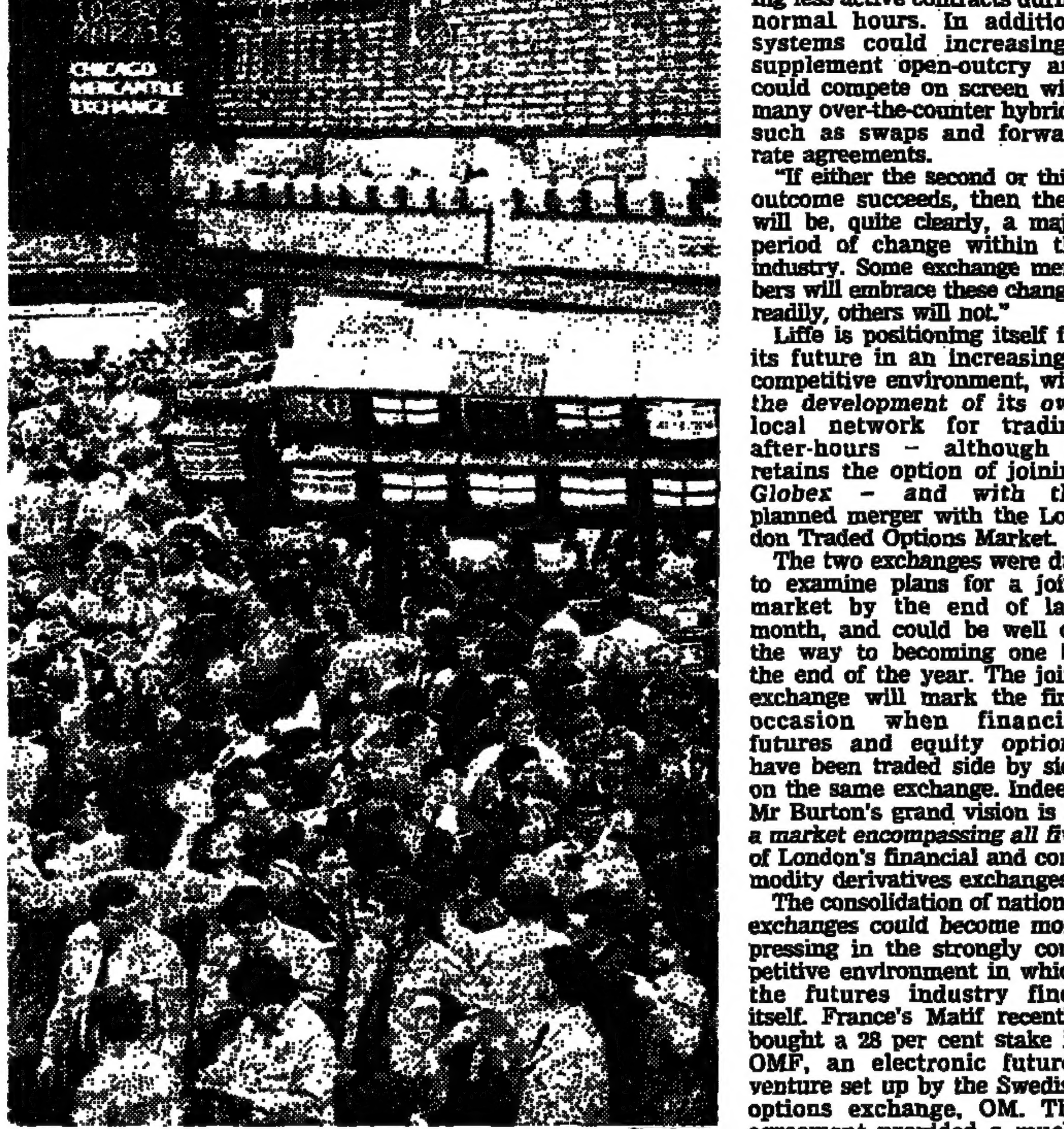
The Chicago Board of Trade and the Chicago Mercantile Exchange have seen their joint market share fall from some 75 per cent of world futures volume *to just over half of it in* the past five years. In addition, Chicago's traditional trading method of open-outcry faces competition from nascent screen-based markets, on which it is often cheaper to operate.

In a bid to stay ahead of the game, the two Chicago giants have turned to a black box that will carry their products across the globe while traders in the windy city are in bed. In a much-vaunted agreement last month, the CBOT and CME opted to combine their screen-trading initiatives into a system that could become a world monopoly.

Reuters, the UK information group, is to develop the joint system along the lines of the CME's Globex market, which it has been working on for the past two years. The information vendor says it could have a prototype up and running by November.

Cynics see the agreement between the two exchanges as just another way of delaying the start-up of a system which has suffered repeated postponements *in the past. But once* Globex finally gets off the ground, the influence of Chicago's major exchanges cannot fail to attract more international participation in the sort of global club they will create.

France's Matif has already signed up to join Globex, the Sydney Futures Exchange has indicated that it would like to be included, and exchanges in London and Tokyo are also interested. With this kind of involvement, it is hard not to see Globex developing into a dominant trading standard across the world.



Glyn Genin

The Chicago Mercantile Exchange: traditional open-outcry *trading faces competition from screen-based markets*

Initially, Globex will operate outside standard exchange hours, and will not clash with existing open-outcry systems, but many market players believe it is only a matter of time before screen trading takes over altogether.

In a recent speech, Mr David Burton, chairman of the London International *Financial* Futures Exchange (Liffe), lays out three possible outcomes for the future of screen trading. First, it could fail and the current euphoria die out through lack of participation and liquidity.

Otherwise, he suggests, screen trading could evolve as a means of extending the nor*mal trading day and for trad*ing less active contracts during normal hours. In addition, systems could increasingly supplement open-outcry and could compete on screen with many over-the-counter hybrids, such as swaps and forward rate agreements.

"If either the second or third outcome succeeds, then there will be, quite clearly, a major period of change within the industry. Some exchange members will embrace these changes readily, others will not."

Liffe is positioning itself for its future in an increasingly competitive environment, with *the development of its own* local network for trading after-hours – although it retains the option of joining *Globex* – and with the planned merger with the London Traded Options Market.

The two exchanges were due to examine plans for a joint market by the end of last month, and could be well on the way to becoming one by the end of the year. The joint exchange will mark the first occasion when financial futures and equity options have been traded side by side on the same exchange. Indeed, Mr Burton's grand vision is of *a market encompassing all five* of London's financial and commodity derivatives exchanges.

The consolidation of national exchanges could become more pressing in the strongly competitive environment in which the futures industry finds itself. France's Matif recently bought a 28 per cent stake in OMF, an electronic futures venture set up by the Swedish options exchange, OM. The agreement provided a much-needed injection of FFr50m *($8.9m) of new capital into the* system; but, what was more important, it gave the Matif access to electronic trading technology.

Such co-operative agreements are likely to become more frequent. Indeed, the success of Globex as an international network could lead to the development of a two-tier market in which Globex would develop into a 24-hour market for the world's major exchanges. As a complement to this global "club", the many smaller exchanges that are currently being set up could exist solely to fulfil domestic requirements.

Plans are under way to *develop futures exchanges* in Belgium, Austria, Spain, Korea and Mexico, and many other countries are considering the launch of a derivatives market. There is likely to be a period of intense competition between many of these nascent markets before the global "club" is established.

The internationalisation of the market also throws up some tricky problems for regulators, since screen trading respects no national boundaries. In addition, exchanges such as Liffe have been developing foreign products to exploit a gap in the home-country market. For example, the exchange's hugely successful German Bund futures contract started up two years before

Liffe is positioning itself with the development of its local network for trading after-hours, and the planned merger with the London Traded Options Market

Frankfurt came up with an alternative – due to start up in August.

This means that a derivatives contract traded in one country can have a strong influence over the cash market of another nation.

Regulators have recognised some of these challenges, and, in in some cases, have welcomed the onset of screen trading, because it is easier to police. In fact, international regulators have formed a task-force to co-operate on some aspects of regulating screen trading, and have produced a *report on the subject which is* due to be published in the autumn.

Whatever happens to derivatives, it is clear that the industry faces some major changes in the years to come. This could have widespread implications for stock and cash bond trading as well. Futures and options exchanges have been major innovators in the past, and their moves can drag other markets with them.

Collars suit the UK

IN SPITE of the wealth of derivative instruments that have been created in recent years, companies are still very conservative in their use of new products.

Most European companies tend to shy away from some of the more exotic products that could boost their bottom lines as well as manage their risk exposure.

In addition, companies not actively involved in trading and with little or no exposure to the commodity markets, are reluctant to become involved in the established futures exchanges. The most that some of these traditionally-minded corporations will use are tailored interest-rate swap products, to complement existing forward-rate agreements that are sold over the counter.

Mr Mark Sullivan, senior director in the risk management group of Continental Bank, advises companies on the use of derivatives. The approach to, and the use of, such instruments varies quite considerably among the companies, he says, and the most forward-looking firms are those with proper treasury functions.

The corporations that make the most sophisticated use of derivatives are those with a lot of debt on their balance sheets and a range of exposure to foreign currencies, making them most vulnerable to interest-rate and exchange-rate fluctuations. Banks and risk advisers are jostling for a position in this growing market, where they tailor derivatives for their corporate customers and in turn hedge their own exposure on the established futures markets.

"We take the approach that companies should have some policy towards hedging, instead of just ignoring it," says Mr Sullivan. "If they're not involved in hedging, they should have a reason why." There are some companies that may not need to hedge – such as supermarkets with very liquid assets – but a company should have a view on its own capital structure, he says.

Mr Sullivan advises his clients to assess their own capital structure in a bid to determine what proportion of fixed and floating-rate debt they believe they need.

Interest-rate management is particularly important in today's environment, where high interest rates are crippling many UK companies. High interest rates have encouraged many UK companies to start looking at hedging their risk with some fixed-rate exposure gained through *the swap market, in the same* way that US corporations have done for years.

The market for interest-rate swaps is one of the most innovative financial instruments to be developed in recent years. It has grown from modest beginnings at the start of the 1980s into a $1,900bn business, as its use has spread into the most conservative US companies.

UK companies increasingly take the view of their US counterparts by making an overall look at their interest-rate exposure in an effort to divide their risk between fixed and floating rates. They can do this by making a swap – usually with a bank – out of a floating interest rate on part of their debt into a fixed rate.

What the more sophisticated corporations are doing is to protect themselves from a further rise in interest rates, as well as gaining some benefit from a fall in rates, by using an innovative combination of derivative instruments.

This strategy is called a "collar", and involves buying a cap from a bank that would lock in a fixed rate of interest payment at 15½ per cent – for example – so that if interest rates rise, the company would not pay a *higher rate than* 15½ per cent. At the same time, it could sell a floor at 12 per cent. The sale of the floor would pay for buying the cap, but if interest rates were to fall below 12 per cent, the company would be stuck paying 12 per cent to the bank for the length of its swap.

Nevertheless, the collar described would be a way of limiting interest-rate exposure, so that a company never paid a rate higher than 15½ per cent and never one lower than 12 per cent – for the life of the swap.

UK companies are particularly interested in the use of the collar strategy, because it offers a certain amount of interest-rate protection at virtually no cost. While the treasurer has to pay a premium for buying the cap, he will receive a premium from the sale of a floor.

These products are essentially over-the-counter interest-rate options, but many companies hesitate before using them since they are wary of paying the upfront premium. Although they *should be seen as a kind of* insurance against interest-rate changes, they are not viewed in the same way as property insurance.

"The ultimate object is to cut interest-rate payments," Mr Sullivan explains, "but what these products do is to give a treasurer more control over his interest-rate expense." This gives the company the ability to make better plans and to make decisions based on a more certain business environment, rather than remain at the mercy of the whims of the market.

One US company that has turned *towards* hedging its currency exposure, in order to enhance its ability to carry out a strategic plan which *involves considerable and continuous* expenditure on research and development, is Merck & Co, the world's largest pharmaceuticals company.

Merck has exposure to 40 currencies, with over half of its revenues coming from overseas. After investigating its position on foreign currencies, the company decided to take a fairly traditional approach towards managing its exposure. It developed a computer model, using long-term cur*rency options which give it the* ability to benefit from a weaker as well as a stronger dollar.

The development of adequate computer systems to monitor changing risks and exposure is one of the factors holding back some companies from hedging. Many firms hesitate before shelling out the investment on a computer system, or before augmenting their treasury department with professional risk managers.

However, as more companies get involved in hedging, it is likely that the performance of those that don't will be judged against that of those that do. The higher standards may force the hand of those firms that are still reluctant to get involved in derivatives.

Regulation

Drexel's fall may spur the talking-shop

THE SKIES are thick with regulators. They scurry between airports and meetings in an endless cycle of bilateral and multilateral confabulations.

Yet this peripatetic talking-shop has so far produced little result.

All agree that the risks inherent in the global securities industry demand action from regulators. The stability of the financial system depends on it. The collapse earlier this year of Drexel Burnham Lambert – albeit with apparently little damage to anyone but Drexel – has added urgency to the talks.

A glance at the plethora of international gathering-points for the regulators gives some idea of the amount of work that is going on. Much industry (and taxpayers') money is being spent on all this talk, but to what effect?

One of the main forums for debate *is the International* Organisation of Securities Commissions (Iosco). This club, consisting mainly of stock-exchange bosses, has been trying to turn itself into the premier international regulatory agency for the securities industry. Yet its main effort – to formulate a capital adequacy guideline – has so far made little headway.

Otherwise, Iosco is known for the lavish annual parties it throws (under the guise of conferences) in venues that the regulators rarely get to visit: Venice last year, Santiago this autumn.

Iosco is trying to take itself in hand. After promptings from the US Securities and Exchange Commission (SEC), *it set up a working party at the* start of the year (under the SEC chairman, Mr Richard Breeden) to carry out an internal review of its organisation. The Breeden committee, due to report soon, is studying the planning and co-ordination of Iosco's technical work, and whether it needs more money to operate effectively.

While Iosco contemplates its navel, other talking shops continue to proliferate. These include:

■ A series of meetings know as the Hexagonals, consisting of the banking and securities regulators from Japan, the US and the UK. Called to consider the regulation of multinational financial groups, these meetings went under the even more ungainly name of Quadrilater*als until Japan joined last year.*

■ A forum for securities and banking supervisors under the auspices of the Bank for International Settlements (BIS) in Basle.

■ A sub-committee of this BIS committee, known as the Barnes Committee, which is looking into equity position risks in banks.

■ A convention of European securities regulators from six countries (the UK, France, Italy, Spain, the Netherlands and Belgium). This has met twice so far.

Richard Breeden is the chairman of Iosco's working party

■ A *European Community* "think tank" on financial regulation, set up by the commissioner responsible, Sir Leon Brittan.

■ EC working groups dealing with directives on investment services and capital adequacy for securities firms.

■ Bilateral meetings between the UK's Securities and Investments Board and France's *Commission des Opérations de Bourse*, which have so far led to a mutually-agreed set of principles for investment businesses.

Overlaying these meetings is a network of bilateral relationships, some formulated in memoranda of understanding, others cemented only by personal contact.

Amid all this talk, covering the *integrity of markets and* the stability and behaviour of market participants, there is one issue that stands out: capi*tal adequacy. Work on this* subject, considered the most urgent, could yield results before long.

The European Commission formulated its own views on capital earlier this year, and hopes to get them agreed before 1990 is out. This seems an optimistic target: its draft was greeted with little enthusiasm, although it escaped the mauling given to earlier drafts *on the same topic.* Equally important, the Commission has the work of the Barnes Committee to contend with.

This committee, which is mulling over the equity position risks of banks, has the advantage over the European *Commission of having a world*wide perspective – although non-bank securities firms fall outside its scope. The capital *adequacy debate is now likely* to bounce between the two forums like a tennis ball.

The involvement of the banking regulators highlights the particular difficulty of reaching agreement on this thorny issue. Banking and securities regulators approach their jobs from different perspectives. The former are concerned with overall solvency and liquidity, while the latter focus on the risks inherent in a firm's exposure to securities markets. With both banks and *non-banks operating in the* securities markets, getting agreement is not easy – particularly when market participants are on hand to complain if the playing field appears anything other than perfectly level.

It took the BIS around 16 months to reach agreement on the convergence of capital requirements for banks. Similar rules for investment business are sure to take a lot longer, given the conflicting views *and difficult intellectual task* of finding an answer acceptable to all.

Besides capital adequacy, the *subject which is being most* frequently discussed at the regulators' international meetings is the weakness in the system exposed by the Drexel collapse: that an unregulated part of a group can bring regulated broker-dealers to their knees and, in the process, threaten the stability of the system as a whole.

*Is it possible to build fire*walls strong enough to prevent contaminationing spreading from one part of a group to *another? Or should the regula*tors seek to bring the unregulated parts under their direct control?

This policy issue is only now emerging, and few answers are available. But it is clear that Drexel, while it has given many people a severe jolt, has not caused the damage that it might. In the words of one regulator: "The Drexel case is quite helpful if it gives everyone a good scare – provided it doesn't bring the system down in the process."

Richard Waters

The growing US private-placement market has received a spur

New rule will clear a path

THE PASSAGE of Rule 144a by the Securities and Exchange Commission in April has focused more attention than ever on the US private placement market.

It has stimulated the interest of corporations that want to raise capital, of investors who want to invest more actively in foreign companies, and of brokerage houses that see a new way of making money.

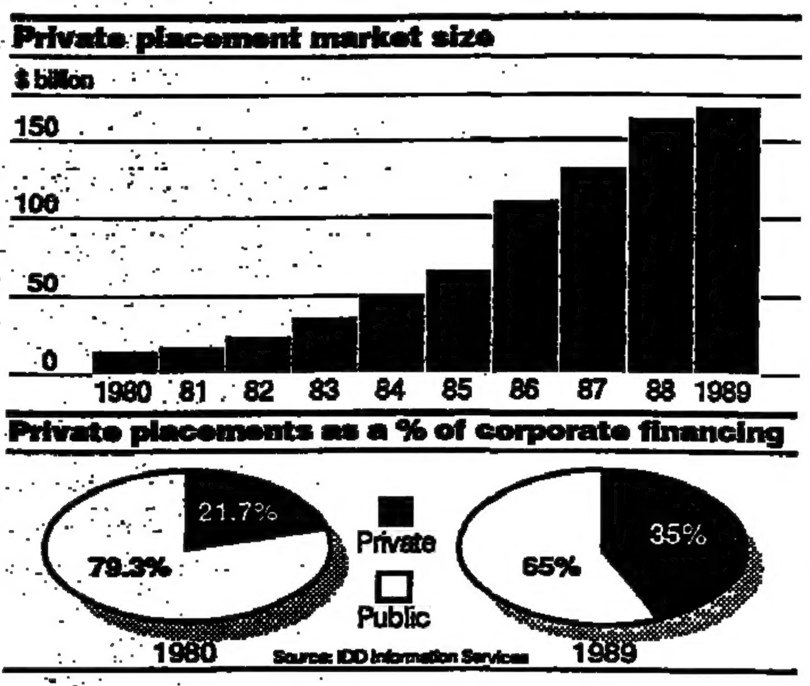
There are high hopes that the rule will help to develop a lightly regulated institutional market in unregistered securities, which will have liquid secondary trading and benefit institutional investors and international issuers of debt and equity.

Even before the passage of this rule – believed by some to be the most important change in US securities laws since the 1930s – the private placement market had grown steadily over the past decade, from \$15.8bn in new issues in 1980 to \$170bn in 1989. Some now predict that the volume of new issues could hit \$250m by the end of this year, outstripping the Eurobond market.

Although Rule 144a is expected to be a major catalyst for the private placement market, some broad trends which may favour the private market were already in place. One factor is disquiet among investors about the public markets, and something of a swing back to negotiated deals between institutions with direct relationships which are more typical of the private, rather than public, market.

Many institutions have said they prefer to raise capital in the private market, because they are disaffected with what they see as the manipulation of the public market by Wall Street houses – for example, indulging in computerised trading strategies. They believe there may be more opportunities in the private market to sidestep the brokerage houses and to issue securities direct to investors.

The further development of the private placement market also reflects a realisation among regulators, and in the investment community, that there has been a significant divergence between the needs



of institutional, as opposed to individual or small investors.

The private placement market is designed for large institutions, which may prefer to work in a less regulated, and therefore cheaper and more efficient, environment than the one offered by the public markets. On the other hand, a sig-

Many institutions prefer to raise capital in the private market, because of what they see as manipulation of the public market

nificant amount of institutional trading may eventually flow from the public markets to the private market, conceivably lessening the volatility experienced by small investors.

At the open meeting which voted in favour of the change, Mr Richard Breeden, SEC chairman, said: "These rules will have a profound and beneficial effect on the ability of issuers to raise capital in the context of today's global marketplace and enhance the competitiveness of our domestic market. The result should be a lower cost of capital in our markets."

The rule allows certain large institutions to issue debt and equity securities in the private placement market without the onerous disclosure and registration required by the SEC in the public markets. It also abolishes rules that prevented the resale within two years of privately-placed securities in the US, thus opening the way for a far more liquid and actively traded secondary market.

In drafting the rule, the SEC was concerned to create a marketplace for relatively sophisticated institutional investors who do not need the top-level protection which stems from onerous registration in the public market. Institutions simply have to hold \$100m in securities, which gives access to the market to more than 2,000 institutions. Dealers have been encouraged to participate actively in the market by a lowering of their capital requirement from \$100m, as earlier proposed, to \$10m.

The SEC also gave the go-ahead in April to a new system on which to trade privately-placed securities. Portal, developed by the National Association of Securities Dealers (NASD) which oversees the Nasdaq over-the-counter market in shares, started operation on Monday, June 18. The NASD hopes that its electronic system will encourage liquid, secondary trading of privately-placed securities.

By the start-up of Portal, 20 major US and European securities firms, which the NASD said between them accounted for 80 per cent of the activity in the private placement market, had signed up, as well as four financial institutions representing "numerous pension and investment interests in the US and overseas" approved as qualified buyers. The NASD said that another 60 institutions were in the process of applying to join the system.

Apart from the fundamental provisions of Rule 144a and the approval of Portal, there were a number of other significant regulatory adjustments designed to encourage the growth of this market. First, the SEC decided to lower the capital requirement for dealers' inventories of private placements, which will encourage active trading.

Even more crucial, the SEC effectively lifted its 10 per cent limit on holdings of private placements – formerly classified as illiquid securities – by mutual, pension and open-ended investment funds. The board of each fund will be left to make their own rules, and it is hoped that many will raise the limit on holdings of privately-placed securities, so broadening the potential number of investors in this market.

Since the rule was passed in April, few issues have come to market under its provisions. However, there appears to be considerable interest from potential corporate issuers, particularly overseas, in tapping the market. First Boston, one of the major advocates of the rule change, said it had talked to companies around the world and had found great enthusiasm in the potential opportunity afforded by the market.

First Boston estimates that perhaps 10 to 15 issues of debt and equity combined will come to market this year. Goldman Sachs, another major player in the market, said it expected a substantial increase in volume over coming months, and that it was currently working on 10 transactions with a total value of \$500m.

Janet Bush

Better clearing and settlement systems may cut risk, but . . .

Many will struggle to meet the improvement timetable

AS THE ramifications of the late-1980s credit boom continue to unwind, ever greater emphasis is being placed on efficient use of capital and the the reduction of systemic risk in the world's financial system.

Efforts to improve clearing and settlement mechanisms are at the heart of systemic risk reduction, but some markets are visibly ahead of their rivals.

The concept that a securities market is only as efficient as its settlement mechanisms is broadly accepted, largely thanks to the October 1987 crash and the subsequent reports from the Group of Thirty, a pressure group of international bankers and heads of securities houses.

Reducing risk by implementing improvements to clearing and settlement, however, is much harder than simply identifying where they are required.

At a Group of Thirty symposium in London earlier this year, held to gauge progress a year after the original publication of the group's nine recommendations on how to improve the settlement infrastructure, it was made clear that many markets will struggle to meet the ambitious timetable laid down in 1989.

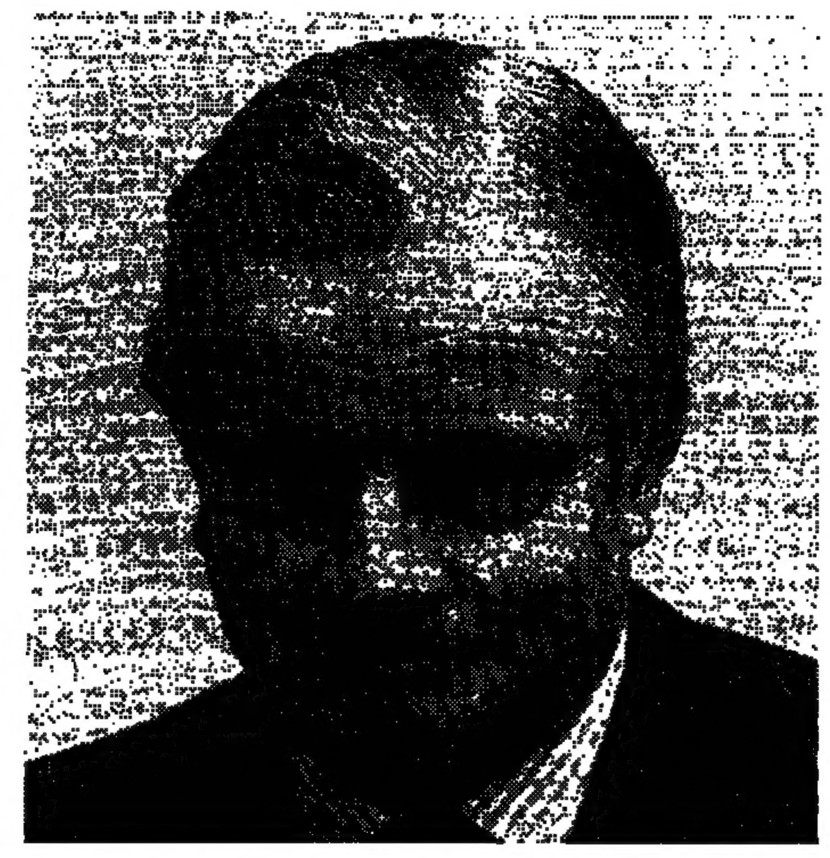
Lord Richardson, chairman of the Group of Thirty, while praising the planning progress made by the world's leading markets, said: "In a number of countries, the hard work of implementation, involving difficult decisions, still lies ahead."

He also noted, however, that a clear sense of urgency pervaded the efforts of countries which had accepted the Group's recommendations in principle.

That urgency is explained by the realisation that efficient settlement helps attract business to a market. A recent study of European stockmarkets suggested that one of the reasons why Paris lost a portion of its trading in French equities to London in the 1980s the poor state of French settlement.

This might seem obtuse, given London's dreadful reputation in the aftermath of Big Bang in 1986, but there is evidence that Paris is recapturing some ground now that it has a better record for settlement.

Research in this area is tentative, because trading systems are thought to play the main part in deciding where trading takes place, with settlement a secondary consideration.



Andrew Hugh Smith, chairman of the ISE, recently saw a clear relationship between transaction costs and trading volumes

More generally, Mr Andrew Hugh Smith, chairman of London's International Stock Exchange, said recently that there was a clear relationship between transaction costs and trading volumes. The cheaper it is to settle trades, the more incentive investors have to turn over their portfolios unconstrained by settlement concerns.

That is the driving philosophy behind London's Taurus project, a development programme designed to bring London's settlement into line with Group of Thirty guidelines by eliminating paper share certificates and introducing book-entry and delivery-versus-payment mechanisms.

Taurus will cost the London market over £50m in development costs, but should save the securities industry as much as £225m over 10 years.

Not surprisingly, the vast bulk of the savings come from reduced staff costs. Securities houses will be able to reduce their back offices in line with the removal of paper processing, while the messengers who currently ply their way around the city streets carrying settlement papers will be redundant.

The Taurus project has been the subject of a long-running battle which often threatened

Paris is recapturing some ground now that it has a better record for settlement

its future. Although it currently seems to be on course for full launch by 1993, the problems over its development raises issues which are mirrored in the Euromarkets where settlement and clearing have long occupied the limelight.

The Association of International Bond Dealers (AIBD), the trade association for the Eurobond secondary market, produced a convincing case for the need to improve the market's settlement mechanisms at its recent annual conference in Amsterdam.

It showed its members, many of them under severe financial pressure as profits have been squeezed by poor fundamentals and tough competition, that inefficient settlement was costing the market at least \$35m each year.

The main reason was an outdated commercial agreement, known as the bridge, between Euroclear and Cedel, the two international clearers. Since its signing in 1980, Cedel has operated at a competitive disadvantage to Euroclear and has been trying for several years to renegotiate the agreement.

Market participants were adamant, however, that the smaller savings for individual houses did not justify the investment of their time and money in becoming involved in the dispute. They indicated that they were prepared to make in-house improvements to ease local effects. But the will to influence wider change was lacking.

This illustrates an irony behind many settlement improvements. By introducing efficiency, they undercut the short-term profitability of many players in the world's capital markets. Only if market leaders like the ISE's Mr Hugh Smith are right will there be long-term benefits as trading volumes increase.

For example, custodian banks make much of their profits from inefficiency. In the world's main markets, the bulk of their business is straightforward transaction processing run like a commodity product. When trades fail, however, there is money to be made on cash balances and stock lending to cover deliveries of securities.

As markets become more efficient, some of the profits associated with inefficiency will disappear. Custodians can console themselves that there is a host of developing markets which will reproduce many of the old problems, but their main volumes will continue to be in relatively efficient markets.

In addition, as leading stockmarkets plan the eventual linkage of their trading and settlement systems, custodian banks are asking themselves hard questions about whether their clients might abandon them in exchange for direct access to an international network. If the markets can overcome their political differences, the future settlement environment will look very different from today's confused picture.

Andrew Freeman

Going up, or down? Analysts differ: the Tokyo stock exchange

Japan

A testing time awaits equities

CONFIDENCE HAS flowed back into the Japanese financial markets in the months following Tokyo's biggest shock since October 1987.

Yet a deep sense of unease permeates some corners of the market – the memory of the triple fall in the yen, equities and bonds, is still too new to allow some people to stop thinking that it might happen again.

Stockbrokers' analysts, whose job requires them to rush out with forecasts when others prefer to sit on the fence, offer differing views of the future. Salomon Brothers, the US investment bank, recently predicted that the yen would strengthen, interest rates decline and that the Nikkei index could hit 37,000-40,000 by the end of the year.

"The danger of waiting for a buying opportunity is growing increasingly acute," said the company in a report.

By contrast, Mr Kenneth Courtis, of DB Capital Markets, an affiliate of Deutsche Bank, expects a further plunge in the Nikkei before the end of 1990, possibly below 25,000. Even Nomura Securities, which usually goes out of its way to be bullish, said in a recent report that "the room for a bond market rally [almost a pre-requisite for an equity rally] is not large."

A big test for the equity markets will come this month, when Japanese securities companies plan to end a moratorium imposed in March on new issues. While they will try to avoid flooding the market with stock, they are under great pressure from corporate clients, who are loathe to borrow from banks when interest rates are at their highest for more than five years.

The key to the health of the Japanese financial markets is the outlook for interest rates. Assets – including land – are generally valued at very high multiples of earnings: so investors are sensitive to increases in the cost of holding them.

A decline in pressures for rate increases in the US and West Germany has taken some of the heat off the Bank of Japan, which has raised the Official Discount Rate four times in the past year. Bond yields, which touched 7.4 per cent in early April for the benchmark government bond, have eased below 7 per cent.

But the same domestic pressures that forced the central bank to tighten its grip on the money supply have scarcely eased. Labour shortages are worsening, pushing wage rates higher in service industries in particular. The yen has recovered after falling to Y160 to the dollar, but the effect of its 20 per cent decline over the last year continues to put pressure on import prices. The main consolation is a substantial decline in oil prices.

The Bank of Japan is most concerned about the possibility of further growth in the money supply triggering another round of asset-price inflation, especially of land prices. It believes the 12.3 per cent increase in year-on-year money-supply growth, recorded in May, is too high. Its informal target for the three months from April to June is 11.7 per cent. In the long-run, the central bank would like to see a growth rate below 10 per cent.

Inflationary pressures reflect to some extent the continuing strength of the Japanese economy – they are the strains of success, not of failure. The Government's Economic Planning Agency last month revealed that the economy had grown at an annualised rate of 10.4 per cent in the first quarter, faster than it had predicted. For the year to March, the economy grew by 5.0 per cent – the third successive annual increase of 5 per cent or more. Mr Courtis, at DB Capital Markets, points out that the increase in output of the Japanese economy in the last two years is equivalent to the GNP of Canada.

Significantly, more than half the growth in national output achieved in the first three months came from external demand, a reflection of a surge in Japanese exports. Government officials emphasise that one-off factors played a part in boosting exports, including year-end shipments of cars to the US; but there is good reason for thinking that a resurgence in Japan's exporting power is under way, fuelled by the yen's decline, strong demand from overseas for Japanese goods, and the launch of successful new products, such as portable video cameras.

Economic growth feeds profit growth, and so supports the value of assets, including land and equities. Companies, excluding financial groups, reported increases in pre-tax profits averaging 12 per cent in the year to March.

This year's market shock apart, the main talking-points in the Japanese financial community are the continuing growth in the size and depth of the financial markets and their steady liberalisation.

Turnover in the stockmarket and bond markets this year are down on a year ago, but volumes in foreign exchange and in the money market are growing. Total financial assets of individuals topped Y800,000bn (\$5,207m) in March last year, according to Yamaichi Securities, an 11 per cent increase.

The advance of deregulations means that savers with Y1m to invest in a money-market certificate can earn free market rates, compared with a minimum of Y100m not so long ago. Banks now have to pay free-market rates on 60 per cent of their deposits.

Under pressure from the US, the Ministry of Finance is likely to extend liberalisation further, so that even small-lot savers can benefit from market rates. Deregulation is opposed by politically-influential credit organisations – including agricultural co-operatives and local savings co-operatives. But even these groups believe change is now inevitable, possibly by 1993.

Among larger institutions, the main issue is the fate of the turf war between banks and securities companies. The banks are pressing for reform of Article 65 of the Securities and Exchange Law, which divides banks and securities companies and is modelled on the US Glass-Steagall Act. Securities companies have, until recently, maintained a solid defence. But in the past year, securities companies, realising that reform might be inevitable, have switched from outright opposition to attempts to minimise the effects of change.

In a report last month, a sub-committee of the Securities and Exchange Council, a government advisory body which tends to reflect the views of the securities industry, said that banks could, under certain circumstances, be allowed into securities markets. But banks should be restricted to underwriting, own-account trading and selling newly-underwritten stock – and banned for the time being from broking, the biggest part of the securities business.

Ministry of Finance officials believe that the earliest reform could be enacted would be 1993. In the meantime, they will pursue piecemeal reform in many areas – including further measures to stamp out abuses such as insider trading in the markets.

Stefan Wagstyl

The Japanese market